



# Innovative Housing Strategies Update

---

JUNE 13, 2023



# Agenda

- Introduction
- Development Community Feedback, Q&A
- Root Policy Research IZ Feasibility Analysis
- IZ Outcomes in Other Communities
- Next Steps

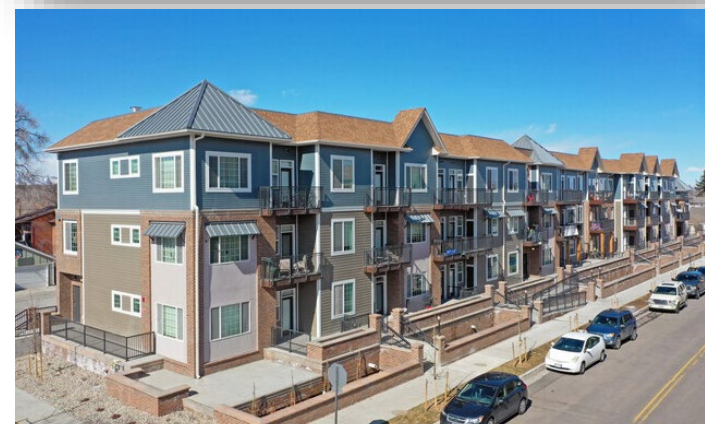
## Meeting Goal

Introduce data for conversation on  
June 20, 2023 Study Session.



# Housing Project Process

Task 1	Task 2	Task 3	Task 4	Task 5
March – June 2022	June – October 2022	Nov. 2022 to Jan. 2023	February 2023 to now	Late summer 2023
Identify Centennial Housing Needs	Review 9 strategies with public and Working Group	Prioritize strategies for drafting – 4 chosen	Draft 4 strategies for community consideration	Policy Consideration



# Introduction



# May 1, 2023 Recap

## Policy Questions

### Policy Questions

- Mandatory or voluntary program
- Applicability thresholds (how many new units should trigger)
- Affordability targets (e.g., AMI levels)
- Alternative compliance choices
- Incentives and adjustments





# May 1, 2023 Recap

## Peer policies and recommendations

	Centennial (Proposed)	Littleton	Superior	Longmont	Broomfield
Development Threshold	5 + units	5+ units	10+ units	All residential development	25+ units
Exemptions	<ul style="list-style-type: none"><li>• Accessory dwelling units</li><li>• Any project providing affordable housing on land provided by the Centennial Land Bank (proposed)</li><li>• Conversion of a residential building to a group care home</li></ul>	N/A	Housing authorities exempted	<ul style="list-style-type: none"><li>• Accessory dwelling units</li><li>• Adding a single unit to a residential building</li><li>• When converting to a group home, this shall apply to additional spaces</li></ul>	<ul style="list-style-type: none"><li>• Less than 25 units</li><li>• N/A to City or Broomfield Housing Authority</li><li>• N/A to charity or non-profit</li><li>• N/A for gov. backed funding for AH projects</li></ul>



# May 9 Follow Up

## Council Direction

- Feedback from development community and other stakeholders about impacts on construction choices, financing, and incentives
- Outcomes from similar communities with IZ policies about:
  - Number of units created and impact on housing construction
  - Impact on market-rate housing prices
  - Voluntary inclusionary programs
  - Cost and set-up of administration
  - Parking adjustments
  - Range of in-lieu fees adopted in other communities
- Opportunities for equity building
- Add one-page memo highlighting general pros/cons





# Housing Policy Toolbox



**ADUs**  
**Inclusionary Zoning**  
**Land Banking**  
**+?**





# Centennial Housing Needs Assessment (HNA)

## Top Housing Needs Today

- **Increase housing production** to accommodate projected household and employment growth:
  - Past 10 years: 241 units/year
  - Keep up with household projections: 561+ units/year
- Accommodate **more missing middle housing types** for small-scale ownership opportunities
- **Address existing gap** for low-income renters (income < \$35,000)
  - Add rental units and/or subsidies to cover 896 units priced under \$875/month
- Target affordable homeownership and rental strategies toward **price points that Centennial worker afford**

ADU	Inclusionary Zoning	Land Bank
○	✓	○
✕	○	○
○	✓	✓
✕	✓	✓



# Development Community Feedback and Q&A

Apartment Association of Metro Denver  
Schnitzer-West



# Participants

Apartment Association of Metro Denver  
Schnitzer-West

## Intro Questions

1. Can you please introduce yourself and share a bit of your background?
2. Tell us a little about the key work your organization does.
3. Are there any points you would like to share with City Council and Planning and Zoning Commission about the inclusionary zoning policy they are considering?
4. Questions from the room

# **Inclusionary Zoning Feasibility Analysis**

## **Root Policy Research**





# Inclusionary Housing/ Zoning:

City ordinance outlining guidelines, requirements, and/or incentives for developers to build income-restricted housing units.

## Inclusionary

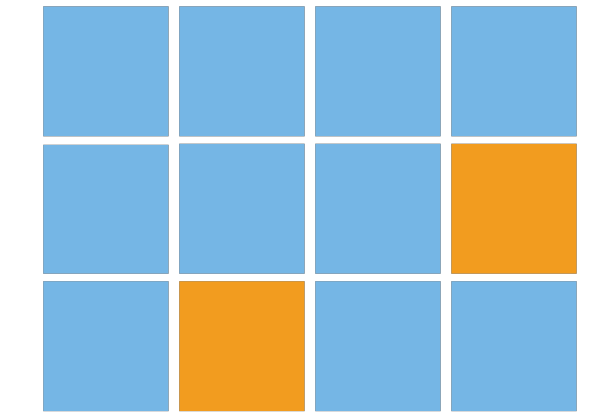


**3 Story Base**

■ affordable unit



## Incentive



**3 Story Base**

■ affordable unit

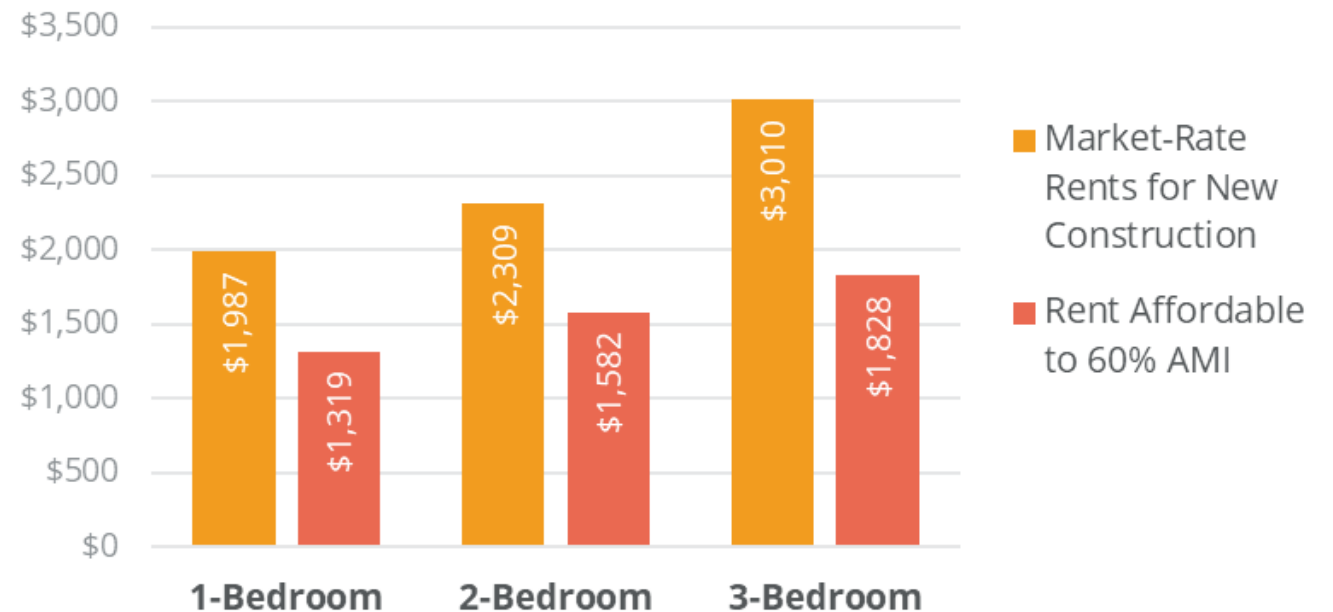
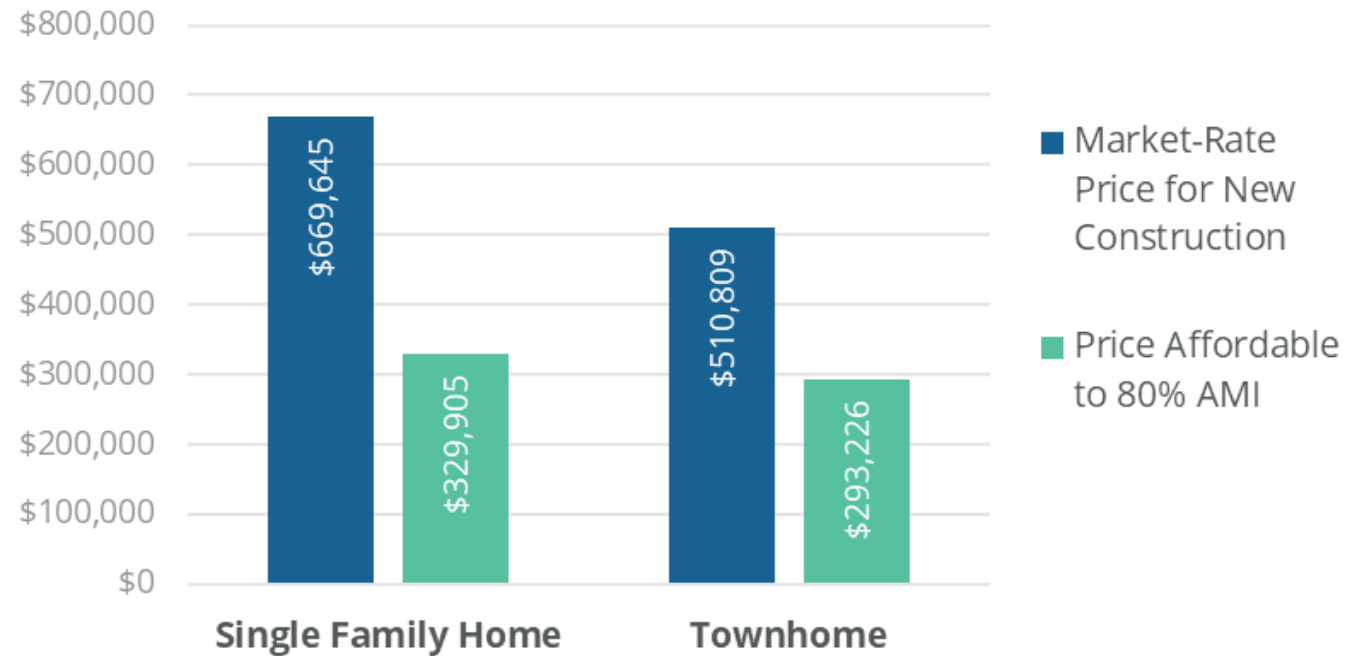
# What is feasibility? Why is it important?

- Applies to both IZ and Incentive based systems
- Uses real estate proformas to determine changes in financial viability of development projects with IZ requirements and/or incentive packages
- These are “**market-driven**” programs—it leverages new development to create affordable units that meet the community’s needs. Without the creation of new market-rate housing, the inclusionary/incentive programs won’t create any new affordable units.



# How does IZ impact development?

- Development cost
- Operating Revenue (or sale revenue)
- Role of incentives



# Current Zoning Conditions

		Single-Family Detached (RU)	Duplex (RU)	Single-Family Attached (Townhouse) (RU)	Multifamily (CG)
Minimum Lot Size		4,000 sf	4,050 sf per dwelling unit	2,600 sf	22,500 per building 1,800 per dwelling unit
Minimum Area of Parcel Proposed for Development		1 acre	1 acre	1 acre	3 acres
Minimum Open Space Requirement		10%	10%	10%	10%
Maximum Density		4.9 units/acre	11.6 units/acre	11.6 units/acre	30 units per acre
Maximum Building Height		30 ft	30 ft	35 ft	50 ft <u>multifamily</u> 30 <u>multiplex</u>
Maximum Building Coverage Ratio		50%	47%	60%	25%
Minimum Off-Street Parking Requirements		2 spaces per dwelling unit	2 spaces per dwelling unit + 1 guest space per 4 dwelling units	2 spaces per dwelling unit + 1 guest space per 4 dwelling units	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



# Current Zoning Conditions

	Single-Family Detached (RU)	Duplex (RU)	Single-Family Attached (Townhouse) (RU)	Multifamily (CG)
Minimum Lot Size	4,000 sf	4,050 sf per dwelling unit	2,600 sf	22,500 per building 1,800 per dwelling unit
Minimum Area of Parcel Proposed for Development	1 acre	1 acre	1 acre	3 acres
Minimum Open Space Requirement	10%	10%	10%	10%
Maximum Density	4.9 units/acre	11.6 units/acre	11.6 units/acre	30 units per acre
Maximum Building Height	30 ft	30 ft	35 ft	50 ft <u>multifamily</u> 30 <u>multiplex</u>
Maximum Building Coverage Ratio	50%	47%	60%	25%
Minimum Off-Street Parking Requirements	2 spaces per dwelling unit	2 spaces per dwelling unit + 1 guest space per 4 dwelling units	2 spaces per dwelling unit + 1 guest space per 4 dwelling units	1.5 spaces per studio or 1 bedroom dwelling unit + 1 space per 2 or 3 bedroom dwelling unit + 2.5 spaces per 4 bedroom dwelling unit + 1 guest space per 4 dwelling units

# Base Case Proforma

## Next Steps:

Adjust base case to include affordability requirements with and without incentives. Compare returns on base case to inclusionary.

- Modest declines in returns can be absorbed by a project and still maintain financial feasibility; however substantial declines 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.

	Single Family	Townhome	3-Story Multifamily
<b>Base Zoning Standards</b>			
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
<b>Site and Prototype Characteristics</b>			
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
<b>Development Costs</b>			
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
<i>Total Development Cost per Unit</i>	<i>\$611,100</i>	<i>\$478,500</i>	<i>\$309,250</i>
<b>Revenues and Operating Expenses</b>			
<b>Sales Revenue</b>	\$14,100,000	\$10,900,000	
Sale Price Market Rate (per unit)	\$705,000	\$545,000	
<b>Annual Rental Revenue</b>			\$1,887,840
Market-Rate Rent (per unit /mo)			\$2,300
Vacancy Rate			5%
<b>Operating/Sales Expenses</b>			
Cost of sale/marketing (2% of revenue)	\$282,000	\$218,000	
Annual operating cost			\$576,000
<b>Valuation Detail</b>			
<b>Net Sale Value or Net Op Income (NOI)</b>	<b>\$13,818,000</b>	<b>\$10,682,000</b>	<b>\$1,311,840</b>
<b>Return on Cost</b>	<b>13.1%</b>	<b>11.6%</b>	<b>5.89%</b>

# IZ Feasibility Analysis

- Tested both a **5% set-aside** and a **10% set-aside**; both use **60% AMI** as the max affordable rental target and **80% AMI** as the max affordable for-sale target.
- Potential **incentives** (tested collectively):
  - Fee rebate (\$2,500 per affordable unit);
  - A 25% density bonus on single-family and townhome prototypes, measured as an increase in the allowed DU/A;
  - Parking reductions (down to 1.5 spaces per unit) for MF rental; and
  - Height bonus applied to the 3-story multifamily rental, resulting in a 5-story prototype and a 7-story prototype.
- *Note: height bonuses result in different construction approaches, including structured parking and, for the 7-story, a change from wood to steel construction.*

# For-Sale Prototypes

As expected, IZ with no incentives results in marginal declines in the return metrics, 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.

	Net Sale Value or NOI	Return on Cost
<b>Single Family</b>		
<b>Base Case (no IZ)</b>	<b>\$13,818,000</b>	<b>13.06%</b>
<b>Inclusionary: 5% of units at 80% AMI</b>		
No Incentives	\$13,486,151	10.34%
Density Bonus & Fee Rebate	\$16,857,689	15.87%
<b>Inclusionary: 10% of units at 80% AMI</b>		
No Incentives	\$13,154,302	7.63%
Density Bonus & Fee Rebate	\$16,442,878	13.04%
<b>Townhome</b>		
<b>Base Case (no IZ)</b>	<b>\$10,682,000</b>	<b>11.62%</b>
<b>Inclusionary: 5% of units at 80% AMI</b>		
No Incentives	\$10,471,207	9.42%
Density Bonus & Fee Rebate	\$13,089,008	13.97%
<b>Inclusionary: 10% of units at 80% AMI</b>		
No Incentives	\$10,260,413	7.21%
Density Bonus & Fee Rebate	\$12,825,517	11.71%



# Rental (MF) Prototypes

Parking reduction and fee rebate help offset IZ, but still result in slight decreases to ROC relative to the base case.















Height bonuses improve NOI (despite slightly lower ROC) and also provide a solution to by-right zoning for higher structures without the need for a PUD process.

	Net Sale Value or NOI	Return on Cost
<b>3-Story Multifamily</b>		
<b>Base Case (no IZ)</b>	<b>\$1,311,840</b>	<b>5.89%</b>
<b>Inclusionary: 5% of units at 60% AMI</b>		
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%
<b>Inclusionary: 10% of units at 60% AMI</b>		
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.
- Multifamily height bonuses improve NOI (despite slightly lower return on cost percentages) and also provide a solution to by-right zoning for higher structures without the need for a PUD process.
- Since most multifamily developers use PUDs as opposed to by-right zoning, any inclusionary policy should automatically apply to all PUD 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.**

	 New Workers	 New Households	Housing Types Households Can Afford		Impact
2025	<b>+8,321</b> Workers	<b>+4,948</b> Households	 Detached	Households <b>519</b>	In-Commuters  <b>+1,324</b>  Homeownership Rate <b>82% to 77%</b>
			 Attached & Condos	<b>1,453</b>	
			 Rent	<b>2,189</b>	
2030	<b>+13,447</b> Workers	<b>+7,996</b> Households	 Detached	Households <b>383</b>	In-Commuters  <b>+2,138</b>  Homeownership Rate <b>82% to 75%</b>
			 Attached & Condos	<b>2,688</b>	
			 Rent	<b>3,654</b>	
2035	<b>+17,791</b> Workers	<b>+10,590</b> Households	 Detached	Households <b>17</b>	In-Commuters  <b>+2,826</b>  Homeownership Rate <b>82% to 67%</b>
			 Attached & Condos	<b>1,154</b>	
			 Rent	<b>7,728</b>	

Note: Affordability based on 1.68 wage earners in with the average weekly wage for each industry per household and 30% of monthly income on housing. Mortgage assumptions include 5.25% interest rate, 20% monthly payment to ownership costs (e.g., property taxes, utilities, and insurance), and 10% downpayment.

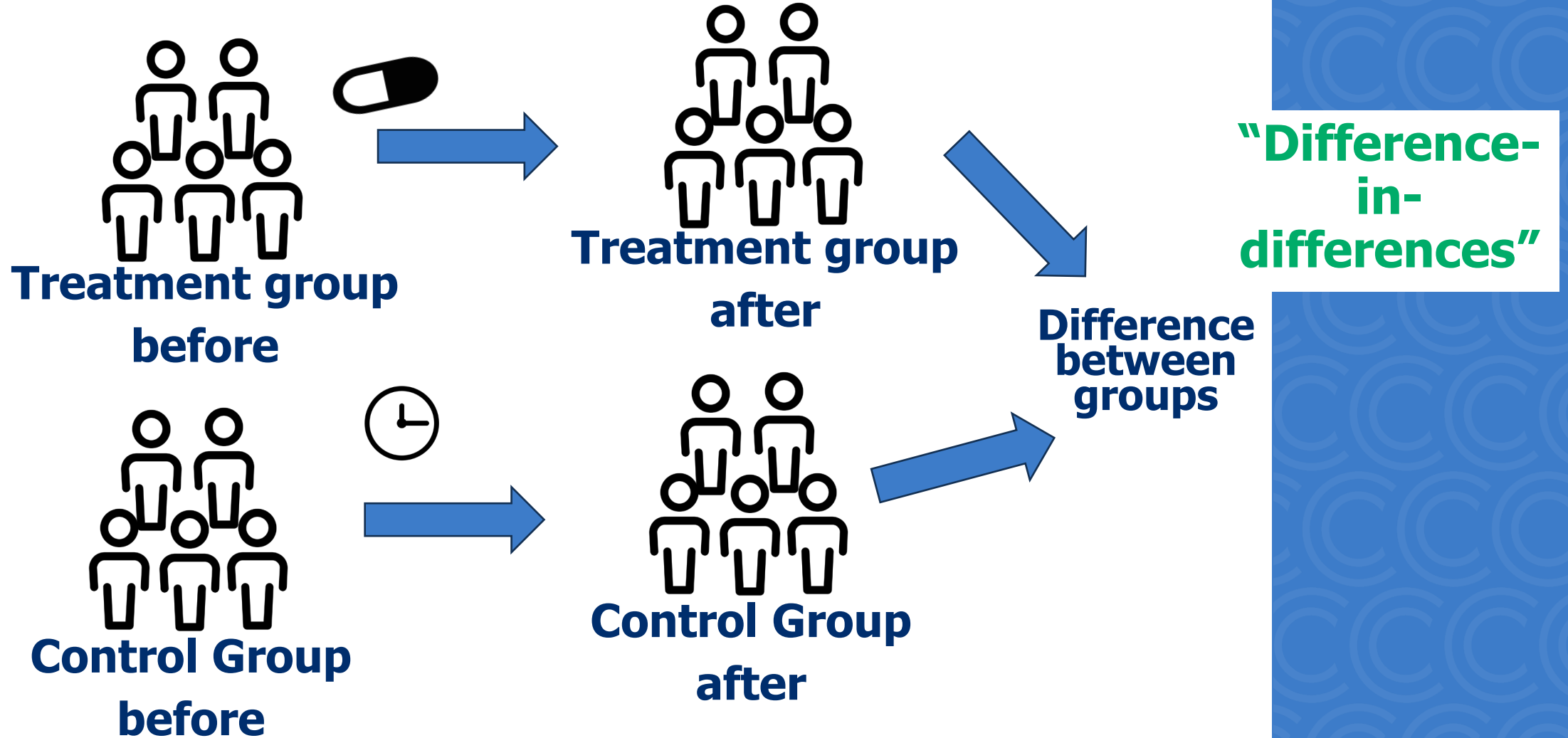
Source: QCEW, MLS, 2020 5-year ACS, and Root Policy Research.

# Outcomes in Other Cities





# Study Design



# Why difference-in-difference

This approach controls for spatial characteristics that do not vary over time (e.g., a city's proximity to the ocean) and characteristics that are uniform across geographies but vary by time (e.g., a statewide recession)

# Research Topics

- **Change in housing project starts**
- **Change in number of units created both AH and MR**
- **Impact on housing prices over time**
- **Voluntary programs**
- **Operations and administration**

# Summary of Key Findings

- Developer cost offset is important
- Effective programs include alternative compliance options, and this is required by CO state law
- Predictable regulations help with cost calculations

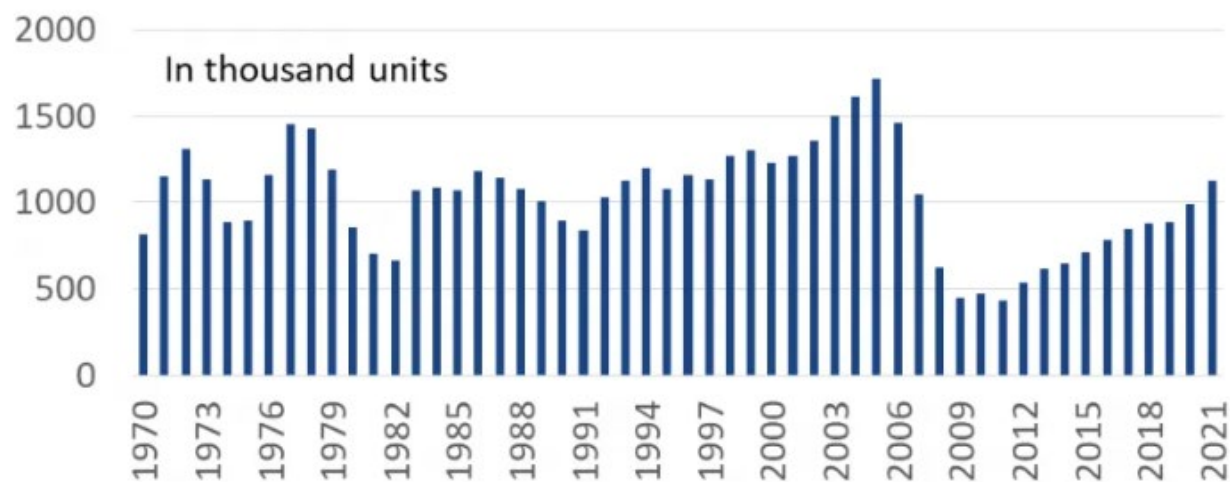
**Housing start =  
the construction  
of a residential  
unit (counted by  
units, not  
projects)**

# Change in Housing Starts

**Housing starts are impacted by:**

- **Supply/Demand**
- **Mortgage Rates/Interest Rates**
- **Overall Economic Conditions (unemployment)**
- **Demographics**

**Annual Single Family Housing Starts**



# Baltimore/Washington

- **Difference – in – differences approach**
- **No change in housing starts**
- **Some IZ policies raised prices by 1.1%**
- **Most voluntary programs that offer development incentives have not been successful in producing affordable units**
  - Exception: Alexandria and Falls Church, both had low zoning allowances and high house prices that made density bonuses more valuable



# Californian Cities (1988-2005)

- **Difference – in – differences approach**
- **No significant effect on the number of permits for housing units**
- **Single-family permits as a share of total permits were lower in jurisdictions with inclusionary housing policies**
- **Inclusionary zoning programs that required either more than a 10% set-aside or applied to projects with fewer than 10 units had larger impacts on the creation of multifamily units.**

The Centennial  
IZ draft  
provides for a  
5% set-aside



# California Cities (1990 – 2000)

- **First difference approach**
- **Mandatory inclusionary zoning programs compared to no inclusionary zoning resulted in 20 percent higher prices and 7 percent fewer homes overall**
- **Later researchers pointed out that jurisdictions are most likely to adopt inclusionary housing policy toward the peak of the economic cycle, weakening the argument that inclusionary housing causes production to fall**
- **Follow-up study by UCLA concluded no impact on the overall rate of production**



## Los Angeles and Orange County

- **Difference – in – differences approach comparison of IZ programs adopted over 35 years**
- **No statistically significant evidence of inclusionary zoning's adverse effect on housing supply in cities with mandatory inclusionary zoning**

## **Boston, San Francisco & Washington DC**

- **Difference – in – differences approach**
- **Boston: reduction of 2 housing permits per year since mandatory inclusionary zoning program adopted**
- **Bay Area: no evidence of reductions to housing production after inclusionary zoning policies adopted**
- **Washington D.C.: decrease in housing prices and housing starts represents a reduction in market demand rather than an outcome of inclusionary zoning policies**

# **Change in Number of Units Created (both AH and MR)**



# Summaries

- **Difficult to calculate an “average” number of units created because of differences in local housing markets, development incentives, and land availability**
- **Mandatory programs produce more units than voluntary programs**
- **The length of time a program has been in place is a significant predictor of the amount of housing produced**



# 2017 Lincoln Institute of Land Policy Study

- **Nationwide survey on mandatory and voluntary inclusionary zoning programs**
- **Of 791 jurisdictions reviewed:**
  - **49,287 for-sale units created across 443 jurisdictions (~111 units per jurisdiction)**
  - **122,320 for-rent units created across 581 jurisdictions (~210 units per jurisdiction)**

# Impact on Housing Prices Over Time



## Boston (2009)

- **1.4% increase in price for single-family homes per each year the IZ program was in place**
- *"Supposing a single-family home sells for about \$240,000 in the absence of an inclusionary policy, that unit would sell for less than \$5,000 more in the presence of an inclusionary policy that is at least five years old."*
- **The effect of an inclusionary zoning program is dwarfed by market trends such as inflation and appreciation**

## Other Findings

- **Cities with inclusionary zoning programs may see housing prices change in a range from 2 to 3% faster than communities without IZ programs**
- **Exacerbated in areas with more expensive housing markets where the price of more expensive housing increased faster than that of lower-priced housing**

# Voluntary Programs



# Voluntary IZ Programs

	Whitefish, MT 2019	Flagstaff, AZ 2009	Athens, GA 2022	Centennial Initial MANDATORY Draft
Compliance Preference	On-site units	On-site units	On-site units	On-site units
Jurisdiction	Citywide	Citywide (as possible)	Citywide	Citywide
Min. Dev. Size	None	None	5 units	5 units
Minimum % Set-Aside	20%	10%	10-20% (varies by zoning district)	.2 to 5% (depending on project size)
Incentives (next slide)				
Alt. compliance	Fee in-lieu Clustering Off-site housing	Contribution in-lieu Tax reduction for land donation	Payment in-lieu (fee per unit)	Fee in-lieu Off-site location Land dedication Credit redemption
Affordability Level	Ownership: 80-120% Rental: 60-80%	80% AMI	Low income: Rent max 30% of 80% AMI Very Low income: Rent max 30% of 60% AMI	Ownership: 80% AMI Rental: 60% AMI
Total Units Created	50+ built 50 in construction	100 units (estimated)	Data not available	n/a



# Voluntary IZ Programs

Incentives	Whitefish, MT 2019	Flagstaff, AZ 2009	Athens, GA 2022	Centennial Initial MANDATORY Draft
Expedited Review		Up to 50%		
Dimensional Adjustments	Lot width reduction (10%) Lot coverage increase (10%)	Site area reduction		Dimensional adjustments up to 20% (setback, lot width, lot coverage) Lot size reduction (20%)
Density Bonus	20%	up to 50%	25-100%, varies by zone district	Density Bonus based on number of AH units provided
Parking Reduction	20%	Yes	20% if within 1,500 ft of transit	Approx. 25%
Fee Waiver	n/a	Waiver/deferment (25-100%)		Fee reduction (\$2,500/afford. unit)
Park/Open Space Reduction		Open Space reduction		50%
Other			Ground floor commercial development rqmt reductions for multifamily projects	

# Operations and Administration



# Key Findings

- **Glenwood Springs: partners with experienced County Housing Authority to implement inclusionary zoning program, considering using state funds to hire additional housing-focused staff**
- **Broomfield: Internal Housing Division administers program with significant partnership with the Broomfield Housing Alliance (started with the assistance of cash-in-lieu fees from IZO) that works on a variety of programs including purchasing land for affordable unit construction**

## Other Colorado Communities Considering IZ per DOLA

- Hayden - adopted an IZO in November 2022
- Buena Vista- pursued IZO (an alternative, incentive-based approach) but ultimately chose not to adopt at this time
- Glenwood Springs - updated their existing IZO in January 2023
- Summit County - presenting updated code language in spring/summer
- Erie - developing updated IZO code language this spring/summer
- Lakewood - pursuing/investigating an IZO
- Golden - pursuing an IZO
- Durango - pursuing an updated IZO

# Affordable Housing In-Lieu Fees

- Per unit in-lieu fees range from \$25,000 to \$478,000 based on a number of variables such as whether the unit is rental or for-sale, location, and unit size.
- Per square foot in-lieu fees range from \$1.90 to \$27.00, based primarily on whether the unit is rental or for sale.
- **Boulder**: \$82,962 - \$234,612 per affordable unit (variation based on unit size and type, such as townhome or multifamily)
- **Broomfield (by 2025)**: For sale \$165,669 + annual adjustment; rental \$106,635 + annual adjustment
- **Carbondale and Glenwood Springs**: no fee in-lieu option
- **Denver**: \$250,000 to \$478,000 depending on unit type and market area (high cost v. typical)
- **Littleton**: 20+ units: 75% of development cost for affordable unit (\$256,000), fewer than 20 units: 50% of development cost for affordable unit
- **Longmont**: \$1.90 per sf for rental, \$7.90 per sf for ownership (e.g., 800 sf rental fee = \$1,520/unit, 1800 sf for-sale unit = \$14,220/unit)

# Broomfield 2022 In-Lieu Fee Increase

“As of Tuesday’s Council meeting, no developers had spoken up against the new inclusionary housing ordinance.

Neighboring communities such as Boulder, Lafayette, Longmont and Denver have been charging higher cash-in-lieu amounts than Broomfield since their inclusionary housing plans were implemented, and those cities have seen more affordable units built than Broomfield, the mayor said.

“We don’t want to preclude development, but rather make it a more equitable choice,” Castriotta said.”



# Elements of Effective IZ Programs

- Developer cost offset is important
- Effective programs include alternative compliance options, and this is required by CO state law
- Predictable regulations help with cost calculations

## Next Steps

- June 20 – Council follow up discussion

# 2023 Project Calendar





# Centennial

C O L O R A D O