DEVELOPER COMMENTS ON INCLUSIONARY ZONING POLICY DRAFT

On May 1, 2023, City Council indicated interest in understanding the impacts of inclusionary zoning on the development community and directed the Housing Team to connect with developers and bring back feedback for Council consideration.

In May 2023, the Inclusionary Zoning 75% "Rough" Draft policy was shared with the following groups via email. Organization names are <u>underlined</u> if they have responded (as of June 4, 2023) and their feedback is provided below. The City of Centennial is grateful for the time from the development community to provide this feedback as Inclusionary Zoning as a housing strategy is continued to be explored.

- <u>Apartment Association of Metro Denver</u>
- BB Living
- Caliber Home Loans
- <u>Cohen-Esry Development Group</u>
- <u>Community Housing Development Association</u>
- <u>Connett Real Estate</u>
- Dominium
- Doran Properties Group
- Embrey
- Medici Communities
- Mile High Development
- Northwood Investors
- Pledge Financial Group
- Reid Development
- Sares-Regis Group
- Schnitzer West
- Shea Properties
- St. Charles Town Company
- TDC Properties
- Thrive Homebuilders
- <u>Ulysses Development</u>

Apartment Association of Metro Denver

Note: These comments were provided before Centennial's draft was available. Mr. Hamrick will be available at the June 13 Council work session for questions.

From: Drew Hamrick
Sent: Thursday, April 20, 2023 3:23 PM
Subject: RE: City of Centennial Housing Study

The most important factor in developing an inclusionary housing ordinance that does not negatively impact multifamily rental development is to compare the net present value of the rent reduction mandated by the ordinance to the net present value of whatever development incentives are being given in exchange for those rent restrictions. When there's a rough financial equivalence, the program will not hamper development or raise rents on the other residents.

A good example of a program that works well is the federal LIHTC program. In that program typically 20% of the housing units must be artificially priced at 60% of the prevailing market rate. This results in a total revenue loss from the project of 8%. However, the federal government gives a very valuable federal tax credit in exchange for participating in the program, which is roughly equivalent to the loss of revenue. Consequently, developers participate in these programs and there is little development lost because of it.

The Denver program on the other hand requires that 12% of the units be priced at 60% of the prevailing market rate resulting in a 4.8% total revenue loss from the project (it's actually a bit more complex than that because there are several different options and two different geographic areas, but I'm analyzing the least impactful of the option). Denver offers nothing to offset that revenue loss.

The effect of that ordinance has been an 11,377 (from 12,762 to 1,505) unit drop in permit applications for new multifamily rental units (88.3%) from the quarter before the effective date of the ordinance through the first reported quarter after the effect of the ordinance. New rental development has come to a halt in Denver.

This doesn't mean that those units will never be built, but it does mean that they won't be built until the unmet demand for rental housing causes the market rental rate to be bid up by 4.8% to offset that lost revenue stream.

The effect of a poorly drafted ordinance is to halt development until such time as the other unlucky residents are paying higher rent to fund the mandate.

Inclusionary zoning always hurts housing development, but the policies hurt less when they're curbed back with:

- **Higher AMI Targets:** (100% AMI is better than 80% which is better than 60%)

- **Lower Required Percentage of Affordable Units:**.(10% seems to be a common target for no particular reason, but the greater the percentage the higher negative impact)
- **Higher Community Size Thresholds**
- **Lower Required Similarity Between Market Units and Subsidized Units** .

Hope this helps. Let me know if you need more from us.

Drew

ANDREW HAMRICK

General Counsel and Senior VP of Government Affairs
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7100 E. Belleview Ave. #305
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Cohen-Esry Development Group (Two Responses)

From: Nick Emenhiser
Sent: Thursday, May 18, 2023 6:37 PM
Subject: RE: Centennial Housing Strategy Feedback

This is fabulous, and congrats on the work you've accomplished on this to-date. I think Lisa will be back my 5/31 and I can also provide some comments. We're both based in the south metro so Centennial is our backyard, and we look at sites in Centennial all the time. We would be so lucky to eventually do a project in Centennial some day.

Best regards,

-Nick

Nick Emenhiser
Development Manager, Cohen-Esrey Development Group

From: Lisa Sorensen
Sent: Monday, June 12, 2023 6:40 AM
Subject: RE: Centennial Housing Strategy Feedback

Sorry this is later than I anticipated.

We are having a situation in Colorado Springs where we have full city approval for our project, and it has been appealed by 4 residents. It is a prime example though of how important it is for a city to stand behind these projects. I am happy to tell you more about it, but will get to your inclusionary zoning comments now 😊

1. Mandatory vs Voluntary: From my experience, market developers will not include the affordable units voluntarily. AND, if they are given the opportunity to "pay a fee" to buy out, they will most certainly do that. So either make the fee so steep, that it is virtually impossible to "buy out" OR if you feel this approach is too strong and may cause developers to avoid projects in the area, then make fees reasonable and it becomes income to provide financing for other affordable projects
2. 5% requirement at 60% & 80% AMI – I think this is VERY reasonable request.
3. Incentive & Adjustments – I think it is Excellent that this section is flexible. It give city staff and the developer some flexibility to work together to figure out what is best of the site and the situation
4. Maximum Building Height – Does this chart say that if the original height is 30 feet and the site is in a spotlight area, that the height can be increased to add another story ? This is good and very helpful. I think this whole section is very good. Sometimes residents will push back on this, although with a good design, and good landscaping, and since you have based it off current zoning in the area, to add 1 more story is not usually that intrusive.
5. One thing to be aware of is what I am facing now on this other project, when writing the rules, to encompass situations to avoid a developer to achieve goals of increased density, parking efficiency, etc. without asking for variances. Because variances = risk. They may be denied and if the public starts contesting decisions made by the city or the developer, the public will always focus on variances. I think you have done a very good job of allowing these adjustments, that would make an affordable project and stay within the code.
6. Rental Requirements - On page 15, #4 stating the applicant has read and understands the deed restriction, is under the rental section and probably should be removed. If the city is going to have a rental covenant, this needs to be addressed because CHFA has a land use restriction agreement and I do not know how these would work together.

If it would be helpful to have a meeting, I would be happy to. I am going to be busy in Colorado Springs this week, but could meet next week.

THANK YOU so much for doing this. The measure you are considering and reviewing are extremely important and help us get these projects to the finish line.

Best,

Lisa

Community Housing Development Association

From: Jo Ellen Davidson
Sent: Monday, June 5, 2023 6:43 AM
Subject: RE: Centennial Housing Strategy Feedback

Sorry to be slow in responding. We are actively working to close our financing for our next 81-unit affordable multifamily rental housing project in Aurora. We will start construction in July and begin delivering quality, affordable rental housing to households earning 30% - 80% AMI by 4th quarter 2024. A very exciting time for us!

I respect and applaud the work the City has accomplished to lay the foundation for creating additional affordable housing options in Centennial. Congratulations! I am very excited to see this thoughtful and meaningful process and outcome. My feedback is that municipalities have an important policy role and opportunity to facilitate housing affordability to help create economically and socially diverse communities. Market rate developers have the horsepower to help meet the housing demand. Leveraging this capacity by creating mandatory affordability criteria – either through inclusion in market rate developments, dedication of land for affordable housing, and/or paying fees in lieu of actual production creates a strong foundation and process for intentional realization of additional affordable housing resources.

As a nonprofit developer what would be most helpful is to have access to affordable land <u>and</u> funding to help limit debt and facilitate truly affordable rents for low- and very-low-income households. We then can take those resources and leverage and blend them with other like-purposed financial resources and partnerships to create beautiful, professionally managed, and owned properties that provide truly affordable quality housing units for Centennial's modest income residents.

Attached for information is a project summary for our new 81-unit project in Aurora. This project will provide affordable units for households with incomes at 30% - 80% AMI with an overall average income of approximately 56% AMI. This income mix is highly consistent with Aurora's Housing Strategy that aims to create housing opportunities for 30% - 100%+ AMI households. It also provides the ability for us to serve households that have slightly more income but still are very much in need of affordable rents.

For information we have a total of nine existing properties – 3 in Littleton, 3 in Englewood, and 3 in Aurora. We have long been interested in working in Centennial. The City's inclusionary zoning could help facilitate that. We are shortly to officially launch our new name "Grovewood Community Development – Affordable Housing Partners", and website – www.grovewoodcommunitydevelopment.org . The website is a work in progress. We are currently finishing our programs and services section. Again – very exciting times for us.

All best wishes as you continue to implant this important public policy and processes.

Jo Ellen Davidson – Executive Director
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Greenwood Village, CO 80111
www.community-housing.org

Connett Real Estate

From: Jordan Connett
Sent: Tuesday, May 30, 2023 12:42 PM
Subject: Re: Centennial Housing Strategy Feedback

I will take some time to more thoroughly read and offer comments at a later date. Though at this time my initial comment would be to encourage the City to provide incentives rather than a mandate for affordable housing. The carrot versus the stick approach. If the carrot is worthwhile, the builders will take it. Hopefully the City can create great incentives that encourage great affordable projects.

Thank you.

Jordan Connett

From: Melanie Ward
Date: Tuesday, May 30, 2023 at 12:47 PM
Subject: RE: Centennial Housing Strategy Feedback

Thank you for the response. What types of incentives would you find most enticing?

You will see the draft proposes incentives, and I would be curious to hear more about how those would impact projects like yours, especially if there are live-work considerations we are missing.

Best, Melanie Ward, AICP

From: Jordan Connett <jordan@connettre.com>
Sent: Wednesday, May 31, 2023 8:54 AM
Subject: Re: Centennial Housing Strategy Feedback

The items I would look for are

- Expedited review times
- Decreased parking requirements
- Increased density
- Free or reduced city fees (review, permit, etc)
- Potential compensation from the city to off set additional costs.

I hope this is helpful.

Jordan Connett

Ulysses Development Group

From: Connor Larr
Sent: Tuesday, May 30, 2023 2:10 PM
Subject: RE: Centennial Housing Strategy Feedback

Thanks for following up. I've attached minor thoughts and comments. As a mission-drive affordable housing developer our projects are 100% income restricted so my focus was on understanding how our projects would be considered under the new plan.

Primarily, the Root study and the policy fails to consider that rentals built under the LIHTC program were clarified to including AMIs from 0-80% AMI so long as the set-asides average to 60% AMI. For example, we are under construction on a 200 unit LIHTC development in Castle Rock. 100% of the units are restricted from 30-70% AMI as we are using "income averaging" under the LIHTC program as clarified in 2022. Under the policy as drafted, even if our development was 100% income restricted and 100% LIHTC-funded, our 70% units would fall outside of this policy.

Secondly, setting aside LIHTC it's unclear how the City would view a non-LIHTC development with 100% of units set aside at 70-80% AMI (workforce / missing middle). We are providing a discount to market rents and are restricting 100% of units, but would potentially be required to insert 60% AMI units into this type of development.

Given that LIHTC developments can range up to 80% AMI and workforce / missing middle developments typically target the 70-80% AMI range Centennial may want to consider figuring out how to incorporate those types of developments as affordable developments so that Centennial doesn't end up with a saturation of 60% AMI units. Saturation at 60% AMI has been a challenge that CHFA has been trying to address for years.

Available to discuss or clarify any of these thoughts or comments.

Thanks

Connor Larr

Partner

ULYSSES

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Development Community

Note: Comments below are staff notes from an in-person meeting with an Investment Manager and Development Manager for a development company that focuses on multifamily and Suburban office development.

- Typically, the company's development approach is to identify a site, estimate the cost to build a project, calculate an expected return, then find investors.
- The pension fund investors this developer typically works with expect a 20% return (roughly equivalent to doubling their equity every 5-6 years).
- The sale price of a building equals Net Operating Income (a measure of the income after any operating expenses) divided by the capitalization rate (often called 'cap rate' a measure of the risk investors are taking, or strength of the market. Cap rates vary, but were estimated around 4-5% for multifamily projects in the Denver area)
    - This equation can mean a reduction in achievable rents (through an Inclusionary zoning policy) can have a larger impact on the sale price of a building than expected. In Denver, this has meant paying fees-in-lieu has been the cheaper option.
- When considering a toolkit of incentives, the commenters proposed:
    - Remove/reduce property taxes for affordable units
    - Offer more areas for 4-5 story construction instead of single-family homes
    - Decrease costs by reducing/eliminating tap fees
    - Decrease parking minimums (often build 1.3 parking spaces per unit, some areas can support 1.1 parking spaces per unit)
    - Consider focusing on areas where denser development can support transit/bicycle/pedestrian infrastructure and lower parking requirements

FALL 2022 OUTREACH

In addition, the project team conducted one-on-one interviews with the development community in September 2022 as the Housing Working Group was evaluating the nine housing strategies.

Interviews were conducted with representatives from BB Living, Community Housing Development Association, Connett Real Estate, Mile High Development, Medici Communities, and Vermillion Creek ownership.

The following summary was shared with the Working Group in October 2022, and was incorporated into the Working Group's strategy recommendations.

Developer Housing Survey, September 20, 2022

Key: AD = question for all developers, MR = question for market rate developers

1. Introductory/Scheduling Email

Good Afternoon/Morning,

I am reaching out on behalf of the City of Centennial, Colorado, who is undertaking an affordable housing study. The City is exploring ways to ease regulatory barriers to the development of affordable and attainable housing, as well as considering incentives to help spur these types of developments. We were hoping you might have 30 to 60 minutes to speak with us about your impressions of some potential regulation and policy update ideas to help us calibrate how they might be useful for the development community.

If you are willing to speak with us, please let me know your availability in the next couple of weeks, and we can schedule a quick chat. Thanks in advance!

2. Background

A. AD: What types of residential development are you focusing on? Who is your target market?
   - Every affordable developer we spoke with focuses solely on multifamily.
   - Market rate developers we spoke with build a variety of unit types.

B. AD: Have you had experience developing in Centennial? Can you describe your most recent project?
   - The affordable developers we spoke with had not developed in Centennial but were interested in doing so.

3. Uses and Development Standards

A. AD: Are there types of housing that you would like to build that are currently difficult to develop? Does it help to rezone to PUD? Have you found any other solutions?
   - No one responded yes to this, but affordable developers suggested that zoning more land for multifamily would be really helpful.

B. AD: Which development standards (lot size, lot coverage, building height, setbacks, etc.) do you think are the biggest barrier to building less expensive/affordable housing developments/units?
   - Affordable developers did not think the development standards would be particularly helpful. Extra height meant that they would need to build a more expensive type of structure, while the other factors were not a barrier to building housing.
   - Some market rate developers thought that smaller lot sizes could lead to less expensive housing, but generally believed that they would need to do condos or attached housing to sell units for under $500k.

C. AD: Would reducing parking requirements help you develop less expensive housing in Centennial?
   - The majority of affordable developers we spoke to said that they generally don't like to build less than the required parking, because they want to be sure that their residents can park several cars. They believed that low-income workers are often extremely reliant on cars to get to multiple jobs across the metro region, and often need more than one, since everyone in the household needed to work.
   - Other affordable developers said that reducing parking was a huge benefit and believed that low-income workers have as few cars as possible and would figure extra parking out if needed. The cost of more than one car per unit was a major factor in their developments. Reducing parking near transit made a lot of sense to them.
   - Market rate developers thought it made sense to build less parking near transit, but otherwise would build at least the required parking despite lowering parking minimums.

D. AD: Are there other zoning barriers that could be changed to make it easier for you to develop at lower price points?
   - Some developers mentioned that required amenities often raise the cost of housing, such as requiring patios. Other than zoning more land for multifamily, no other developers had ideas outside of our questions.

4. Permitting Process

A. AD: How much does the permitting/development review process impact the cost of development? What would make it better, speeding up the process, reducing application fees, or both?

- For affordable developers, process was the major barrier to building affordable housing. They said that grants, and other funding mechanisms, often had tight timelines associated with their usage. They also mentioned that the cost of holding onto land, the upfront fees required to pay architectural, engineering, and other services, and application/impact fees were often difficult early in the process.
    - Some of their suggestions:
        - Allow affordable housing projects to be approved administratively.
        - Ensure that multifamily is a use-by-right in more places.
        - Fast track affordable developments by reviewing them first, ahead of market rate developments.
        - Create a staff position that is an expert in affordable housing, or at least a special contact/coordinator, that helps affordable developers get through the process
        - Advertise all the ways they help affordable developers, online, but also reach out to the affordable housing community. It is a small-world and easy to get in contact.
        - Post a “bill of promises” online. This is what we will do, this is what we won’t do
        - Waive applications fees, impact fees, and public improvements (such as building streets, parks, open space dedications etc.) They believed that affordable housing was a public good and tacking on other public goods made it very difficult.
- Affordable developers also felt that streamlining the process would help them get to a cheaper end product.

5. Other Incentives

A. AD: Centennial is considering development incentives in exchange for income restricted housing, what would you need from the city to entice you to include affordable units in your next development?

- Affordable developers:
    - Did not find density bonuses would be very helpful
    - Tax abatements was a very big incentive. Not only does it help build the initial building, but also saves money in the long-term, which they use to both buy more land to build affordable housing on and to maintain their properties. All buildings need maintenance, which is paid for by tenant rents. With a tax abatement, they are able to save

considerable funds that allow them to keep the property in good condition over long period of time, without tenants suffering. Additionally, it is very difficult to raise rents on low-income tenants. Even a $20 raise in rents can be very difficult for their tenants to manage.
    - Application and impact fee waivers would be very helpful
    - Any stream of money that the City can create to help subsidize these projects is immensely helpful. A little money can be leveraged into a lot of good.
    - Showing the affordable development community that the City Manager, Planning Director, and Council is on board goes a long way to affordable housing developers looking seriously at developing in an area.
- Market Rate Developers
    - Density bonuses would be very helpful, along with any funding assistance.

B. AD: How much does the cost of land factor into your developments? Would zero or low-cost land deeded from the city move affordable developments along?
- Affordable Developers:
    - Land is a major cost, especially in a competitive housing market like Denver. Everyone is competing for the same piece of land and affordable developers have a hard time competing. Helping a developer get into a piece of land is very helpful. It can take 18 months to get a project funded, and they have to show CHFA that they already have a land agreement.
    - Buying low-cost land from a city, or even buying it at market prices but having time to get their funding together, is very helpful.
    - Leasing land from the city is also helpful. Leasing land does not generally work for market rate developers, but it works well for affordable developments.
    - Looking at land owned by RTD is a good place to start. Often they find that RTD and the cities have trouble getting on the same page, but with a little work, housing can be beneficial to both parties. More housing means more people are in the area, which makes the station safer.
    - Any land that the city already owns should be looked at. Are their parcels that are underutilized?
    - Also suggest allowing more flexible zoning on and around schools, churches, etc.

C. AD: Do fee waivers make a large enough impact to affect your pro forma? Do you have a general estimate of the amount of waiver needed to incentivize affordable housing development?
   - Affordable developers:
     - Yes, absolutely. Any little bit helps, but fees can often be 3-5% of the cost of the development. Water taps in particular are very expensive, but so are public improvements. Even application fees can help a lot.
   - Market rate:
     - Yes, absolutely. Same as above.

D. AD: What is the biggest barrier to adapting commercial buildings to residential?
   - All Developers: Structurally, it is very challenging. Often the whole building needs to be adjusted. Ceiling heights are different, residential needs a lot more water/wastewater, insulation, etc. It rarely makes sense financially. Often better to just tear down the commercial building and start over.

E. MR: Have you teamed with affordable housing developers in the past? If yes, how did those projects go?
   - Not many Market Rate developers had partnered with an affordable developer. Those who had said it was a pleasant experience.

F. AD: Have you worked in other communities that had programs or incentives that you found particularly helpful?
   - No one is doing it perfect. Westminster, Lakewood, Denver, Aurora all are doing rather well.

G. AD: Have you worked in a community that had an inclusionary zoning program and what was your experience?
   - Many affordable developers are currently working in Denver and figuring out the new inclusionary zoning program. Denver requires that 10% of the development be affordable, and that the housing is built on site, with no cash-in-lieu option. This means that market rate developers are reaching out to Affordable Developers, partnering to get their 10% affordable built. However, it is really difficult because LIHTC funds cannot be used without at least 50-60 units (not clear if it is required, or a cost thing), which would require a 600 unit development. Most projects are 200 units or less (20 or less affordable units). Without LIHTC funds, it is very difficult to build affordable housing.
   - None of the market rate developers had worked with inclusionary zoning.

H. AD: What else should we know or be thinking about?

- All of the affordable developers we spoke to would love to work with city, and just having the city as a partner goes a long way. Helping them figure out how to get the development done as a partner, instead of in opposition, goes a really long way.