Overcoming Barriers to Affordable Housing in Colorado

Creative solutions for developers, public officials and housing advocates
ULI Colorado thanks Housing committee co-chairs Lynn Crist, Chad Holtzinger, and Chuck Perry, along with volunteer James McMurray, for their leadership on this project.
Introduction: Cause for Hope Among Affordable Housing Challenges

Almost 20 years ago, my kids got a great start thanks to an inspiring young art teacher at the neighborhood elementary school. But unlike older teachers, who often lived nearby and walked to work, this teacher commuted 30 miles by car to an affordable home for his growing family. The reason: our neighborhood was quickly gentrifying with home prices out of reach of a starting teacher’s salary.

After a year, he (sensibly) took a job closer to home and was replaced by a mediocre art teacher. My kids survived into fairly creative adulthood. But therein lies a parable and a microcosm for the affordable housing crisis that faces metro Denver and much of our state.

With home prices rising and salaries stagnant, many workers cannot afford to live close to work. They “drive to qualify,” leading to such side effects as sprawl, congestion, and air pollution. In some communities, service jobs and even higher-paying positions (and for that matter, seats on civic and volunteer boards) go unfilled. Growing companies that can’t house their workforce may leave or not come to Colorado in the first place.

This creates challenges from community cohesiveness to economic development. Travel down the pay scale and the issues become more critical. Lower-income families beset by high housing and travel costs may not be able to afford healthcare or healthy food for their kids -- and we all pick up the public health tab later. Some fall from the housing market all together into homelessness.

What is causing Colorado’s housing crisis? How come the median Colorado home cost is one-third above the national average? Factors include rapidly rising prices, stagnant incomes, production that does provide enough homes to not keep up with population growth, outdated zoning, and “not in my backyard” resistance to infill development and density.

This report faces these issues realistically, but it is also designed to offer hope. The Urban Land Institute (ULI) is a 40,000-member nonprofit think tank that engages the expertise of 26 different professions to help communities deal with such tough land use issues. ULI Colorado’s 1,250 members and others in the state’s real estate community have devised numerous innovative and practical solutions to build more housing for a wider range of incomes.

Funded by an Urban Innovation Grant through the ULI Foundation with additional support from the Perry Rose Company and Shopworks Architecture, this report highlights techniques to attract private and public investment to build more affordable housing, especially in walkable, urban infill, and transit-oriented locations, with access to jobs and economic opportunities.

To research this report, our writer Eric Peterson interviewed nearly 25 experts in Colorado and beyond. Topics he covered include:

- creative finance,
- public-private partnerships,
- methods to reduce land and construction costs,
- regulatory innovation,
- development approval strategies, and
- initiatives to promote the development and preservation of affordable housing.

This report will help private and nonprofit homebuilders, public officials, real estate financiers, housing advocates, and communities overcome the obstacles to creating more affordable housing.

There are many reasons for a spectrum of community members to support affordable housing in a broad range, from very low-income homes to those that can cost $450,000, even with a subsidy or incentives.

As our environment becomes more fragile and society becomes increasingly fractured along class lines, it is clear that this is the right direction to achieve the ULI mission "to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide."

— Michael Leccese
Executive Director, ULI Colorado
Who Cares, and Why?

- If you are a private developer, an affordable housing project is a product with a built-in and permanent market, and you can generate consistent cash flow for years.

- If you are an elected official, an increased supply of affordable housing helps offset gentrification that stresses and scatters your constituents.

- For environmentalists, affordable housing embedded in compact, existing communities can help preserve agricultural and natural lands, and decrease vehicle miles traveled and carbon emissions.

- Employers with access to affordable housing can attract and retain a healthy, productive, talented, and available workforce.

- Experts in economic development say affordable housing keeps our state and region competitive, and attracts good jobs in clean industries.

- Neighborhood advocates may feel relief that teachers, firefighters, and even their own children and parents have affordable options in their communities.

"I have seen changes in the lives of people given the opportunity to live in affordable housing. This is not just about real estate – this is about people."

– Susan Powers, president, Urban Ventures & co-founder, Mothers Advocating for Affordable Housing (MAAH)

How this Report Came to Be

In summer 2015, ULI Colorado's housing committee held workshops to identify barriers to affordable housing. The 25-member committee consisting of housing developers and policy experts identified barriers in four areas that this report tackles while identifying next steps:

1) Regulatory

Construction defects issues: Lawsuits and lack of insurance choices available to developers and builders have drastically curtailed new development, removing a huge chunk of the market for entry-level buyers, curtailing development at transit-served sites, and driving prices up for other products such as rental apartments and single-family homes.

Inclusionary housing ordinances (IHOs): These have had mixed success in Colorado communities and are not always popular with developers. In addition, IHO requirements to include a percentage of affordable housing in new developments do not apply to rental housing. This issue is amplified by the shortage of new condo construction.

Zoning: Rezoning to higher densities faces an uphill battle for public approval, and it adds time and cost to a project. Parking requirements are often too high (and expensive to fulfill, especially at transit-served sites). Too many communities enforce low-density zoning with no opportunity to fill in "the missing middle" with townhomes, smaller apartment buildings, and granny flats.

2) Social

Even in urban neighborhoods, the "not in my backyard" movement remains strong. Some citizens object to the height, bulk, and design of new infill buildings. Others worry about traffic and parking.

Many neighborhoods exclude opportunities not just for lower-income people, but for single-parent families, seniors, and middle-income workers.

Gentrification has become a growing issue as rising prices in the core push out working families to the edges of the metropolis. Some communities are losing their core of multi-generation families as well as access to the workforce that provides local services, from baristas to nurses.

3) Physical constraints

Many neighborhoods lack basic infrastructure, such as sidewalks, safe streets, transit, access to healthy food, and urban drainage. These areas may be the least expensive to build in, but lack the amenities needed for active living, economic opportunities, and access to healthy food choices.

4) Economic

 Developers face high costs to provide the infrastructure (drainage, sidewalks, plazas, open space, street trees, and landscaping) needed for a healthy, walkable public realm. In Colorado, the tools of urban renewal that can provide creative financing strategies are being curtailed.

Other costs are rising across the board — for land, construction, rent, and home purchases.

In recent years, construction costs have risen as much as 50 percent, creating yet another challenge toward providing affordable housing.

The public sector has limited resources to provide tax credits or cash subsidies to build infrastructure or housing.
“Our population is growing much faster than our housing stock and the gap continues to grow.”
— Rick Padilla, Director of Housing and Neighborhood Development, City and County of Denver

“Getting to Solutions: Collaboration is Key”

“"All of these are 2 per cent solutions. You're just going to have to stack up as many good ideas as you can"”
— Stockton Williams, Executive Director, ULI Terwilliger Center for Housing

Considering the growing chasm between housing costs and income, solutions require collaboration across municipal and jurisdictional lines. “It's not only a Denver issue, it's a regional issue,” says Rick Padilla, Director of Housing and Neighborhood Development for the City and County of Denver. “Our population is growing much faster than our housing stock and the gap continues to grow.”

What's Working # 1: Tax Credits to Attract Private Investment

"The private sector has to be every community’s first responder to affordable housing demand. [Otherwise] about 25 percent of every community will not be able to participate in the traditional housing market."
— Betsey Martens, Executive Director, Boulder Housing Partners

Established in 1986, the federal Low-income Housing Tax Credit (LIHTC) program has financed roughly 90 percent of affordable homes in the U.S., including more than 45,000 in Colorado. The key to this success is LIHTC’s ability to attract private investment to help meet affordable housing needs.

Awarded by the Colorado Housing and Finance Authority (CHFA) and used to generate equity in the projects, the state’s cumulative total of $259 million in federal tax credits has catalyzed more than $5 billion of construction and helped nearly 90,000 households achieve homeownership.

“All roads lead back to CHFA,” says Dace West, Executive Director of Mile High Connects. “We’re really lucky to have a housing finance agency as thoughtful as I think they are. They’re driving a ton of creative thinking in the tax credit world."

But the competition for the federal 9 percent LIHTCs has gotten fierce, as numerous traditional developers have entered the market in recent years. (There are also competitive and noncompetitive 4 percent LIHTCs for acquisition/rehab and new construction, respectively.)

After working in market-rate development since the 1980s, Andy Allison, president of Allison Management, branched into LIHTC-based affordable housing projects in Boulder in the 2000s. Allison says it’s ultimately not unlike other development: Timing and financing are all-important. “The challenge is you have to get from point A to point B with your own money,” he says, whereas nonprofits typically buy land, then pursue financing with a slower, more deliberate pace.

“I partner with a lot of nonprofits, so I’m not trying to diminish their role,” says Allison, “but when you have money in the deal, it just makes it work quicker.”

Carl Koelbel, vice president of acquisitions and development at Denver-based Koelbel and Company, a private developer that has invested heavily in affordable housing, says market-rate developers can be attracted to affordable housing solutions when they see the potential for profit.
housing because development fees are higher and risk is lower. "Once the credits have been awarded, there is limited risk associated with the deals with the greater certainty of payment, which is why a lower overall return can make sense," he explains.

Most observers say the state’s 4 percent LIHTCs, launched in 2001 and twice since renewed, are a great tool. The $5 million program in 2015 was "a relatively small slice of the pie," but an effective one, says Sara Reynolds, executive director of Housing Colorado. "We nearly doubled production in that one year."

With the state credits extended to 2019 during the 2016 legislative session, Reynolds is optimistic such returns will continue. "Think of what five years of doubling affordable rentals will do. That's a really big game changer."

However, she's quick to note that tax credits only provide equity for rental housing. "We don't have anything to provide resources for home ownership," says Reynolds.

Another promising initiative that's a joint effort of the city of Denver and CHFA: a revolving affordable housing loan fund of about $10 million. The City and County of Denver's Padilla labels it a "gap-filler" that has helped fund 300 affordable homes and is replenished as low-interest loans are repaid. "That's a very innovative tool. We've talked to cities around the country who are very interested in it."

Market-rate developers have also brought fresh ideas and competition to federal LIHTCs, but there are simply not enough tax credits to go around in Colorado, let alone the entire country. There is some hope for a five-year, 50-percent increase in available federal tax credits with new bipartisan legislation introduced in 2016, but several observers say there are more reasons to fear for future decline.

What’s Working # 2: Special Funds

Launched in 2013, the first-of-its-kind Denver Transit-Oriented Development (TOD) Fund has had a big impact. It's expanded beyond city limits and now takes a regional approach to create and preserve affordable homes in transit corridors.

"That is a best practice," says Stockton Williams, executive director of the ULI Terwilliger Center for Housing in Washington, D.C. "Not many cities have done that, but it's only really the tip of the iceberg."

The fund is managed by Enterprise Community Partners and staked by government, private sector, and nonprofit funding. It has grown from its first iteration -- a Denver-focused $15 million fund with Denver’s Urban Land Conservancy (ULC) as the sole borrower -- to a $24 million fund with multiple borrowers in seven counties.

The TOD Fund "fills the very specific gap of ensuring the cost certainty of the land," says Brad Weinig, program director for Transit-Oriented Development for Enterprise Community Partners. "We don't want the cost of land to escalate two to three times while they're waiting for tax credits."

An example: ULC bought a 1.4-acre parcel near the 38th and Blake rail station in Denver’s hip RiNo area with the help of the fund for less than $30 per square foot in 2011; recent deals have soared well past $100 per square foot.

While the planned mixed-use project on the site is still awaiting federal tax credits, Weinig notes, "Even in the worst case, the site is still owned by a mission-driven organization that controls valuable land at a low-cost basis."

Like Denver, Portland is in a hole. The city is currently short about 24,000 affordable homes, and projections estimate that number will increase by about 10,000 by 2035.

Peer City # 1: Portland, Oregon

About 10 percent of 125,000 rental homes are permanently affordable citywide. In urban renewal areas like Pearl District, that number is 30 percent. Representing about 15 percent of Portland’s land area, such areas have used tax-increment financing to raise more than $275 million for affordable housing since 2007.

"Portland had done a really good job on the urban renewal areas," says Portland Housing Bureau Director Kurt Creager. "I need resources for the rest of the city."

They’re starting to stack up. As of 2015, a lodging tax has been redirected from the general fund to the Portland Housing Bureau, with revenue projections for $14.4 million over 10 years. And after Oregon lifted the nation’s second-to-last inclusionary housing ban in 2016, Portland is implementing an ordinance requiring 20 percent of 20-unit projects to be affordable at 80 percent AMI. In June, Portland enacted a 1 percent excise tax on most new construction, and a $258 million general obligation bond to further fund affordable housing is on the ballot in November.

All in all, Creager calls it "a robust set of tools" that address the return-centered strategies of publicly-traded real estate investment trusts (REITs). "Now they have to come to the table."

The Abigail is a six-story, mixed-use development that adds 155 new homes to Portland’s Pearl District. The building will be mixed-income, with 128 affordable apartments for families earning 30 to 60 percent AMI and the balance at market-rate rents.

The inclusionary housing ordinance (IHO) has "been pretty successful," says Sarah Zahn, senior project manager at Portland’s Gerding Edlen, a market-rate developer that’s worked in affordable housing since its founding in 1996. However, there’s a catch. "In year 11, these homes are going to return to market-rate. It remains to be seen how effective it [the IHO] will be keeping those homes affordable."

The new excise tax represents "a significant change for folks in commercial and residential to have a new fee," says Zahn. "There’s a level of recognition in the development community in Portland that we need affordable housing, but there's also a level of nervousness" that fees may be passed onto consumers in the form of higher housing costs.
"The TOD Fund has done what it set out to do," says ULC President and CEO Aaron Miripol. "The fund has to be much larger. We need a fund that's $100 million. We need a fund that can do preservation and stay in deals for a longer period of time. We don't [yet] have the money to buy and hold existing properties."

What's Working # 3: Land use strategies

Statewide, land costs have been increasing rapidly. That fixed cost is hard to mitigate. The best strategies often involve the ways in which we use the land.

Chad Holtzinger, president of Shopworks Architecture in Denver, advocates for a density bonus for developers who include affordable housing as part of large projects. The continuing Denveright update to Blueprint Denver offers an ideal opportunity to add such an incentive, he adds. "This is a real good chance to take most of those lessons and redo the [zoning] code," says Holtzinger. "To me, density is the topic and it's going to be the fight, too."

Density bonuses work basically like this. Communities allow developers to build more homes as part of a single project in return for a requirement to create a percentage of those homes as affordable. In theory the economy of building at a bigger scale helps underwrite the additional affordable homes.

Holtzinger sees this tool as a great way to attract more market-rate developers to build more affordable homes. "If you can take a five-story and turn it into a seven-story or take an eight-story and turn it into a 10-story," he says. "The pro rata share of those sunk costs on a square-foot basis are reduced."

Municipalities can also help by applying a "light regulatory touch" to speed the process of development, he says.

In places like Vail and Crested Butte, density "has to be part of the solution," he adds, but it's typically a political non-starter. He calls affordable developments with only 10 homes per acre "a waste of an opportunity."

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Community land trusts (CLTs) can shape land use and foster affordable housing by fixing the cost of land before it escalates in a hot market. By offering developers a long-term lease on the land, landowners can mitigate risk and offer a means of achieving and protecting community wealth. CLTs offer a buffer for rising land prices in hot markets and help protect residents from depreciation in cool markets.

ULC has used CLTs for a number of projects and typically leases the land to partners 99 years at a time. "Each deal is different as our intent is to make sure the deal works," says ULC's Miripol. "In most instances, our partner pays us a development right fee – typically at least 75 percent below market value of the land – up front and then pays us a nominal annual ground lease, anywhere from $300 to $2,500 a month based on the size of the development and the value of the land."

Thrive Home Builders' Elements project at Stapleton offers another route to mitigating land costs, albeit a rarer one: free land. In the 1990s, master developer Forest City Stapleton agreed to make 10 percent of Stapleton’s homes affordable. As the community swelled to 18,000 residents in 2016, the total of 300 affordable homes reached only about half that benchmark.

"We either make decisions to use land differently or make the decision to pay more to keep communities as they are because we like their character."
– Betsey Martens, executive director, Boulder Housing Partners

"You wonder how many developers can afford this," says Thrive CEO Gene Myers, noting that subsidy and free land donated by Forest City Stapleton was worth $50,000 to $100,000 per home.

To hit its required target, Forest City negotiated a deal with Denver-based homebuilder Thrive. Forest City gave about 5.5 acres to Thrive along with a supplementary cash subsidy to build 165 for-sale townhomes priced under $200,000 for buyers earning 80 percent of area median income (AMI), with a deed restriction that limits the sale to buyers in that same income bracket. Thrive broke ground on the first homes in June 2016.

In 2009, Vancouver, B.C, began encouraging the construction of ‘laneway’ (carriage) houses. Today fully one-third of the city’s single-family homes have laneway houses, adding more than 25,000 homes to the housing supply. Homes average 550 square feet and rent for $1,200-$1,800 a month filling a middle-income nook in an expensive market.
Case Study: Red Oak Park, Boulder

The average home cost in Boulder recently passed $1 million. Yet a good-sized percentage of the community’s population consists of working-class Latino families, who often live in substandard and crowded mobile home parks.

In 1997, Boulder Housing Partners (BHP, the city’s housing authority) acquired a five-acre mobile home park in north Boulder. Established in the early 1960s as Boulder Mobile Manor, the park was blighted and prone to flooding. BHP had a long-term vision of reinventing and revitalizing it.

“We operated it as a mobile home park before we could find a redevelopment path that made any sense,” says Betsey Martens, BHP’s executive director.

Fourteen years, four LIHTC applications, and a $13 million redevelopment later, the first tenants moved into the community’s 59 duplexes, triplexes, and single-family homes that took the place of the trailers. The city provided about 20 percent of the project’s funding, and the majority of the equity stemmed from 9 percent federal LIHTCs.

Rents are based on the income of the tenants who are all in the 30 to 50 percent AMI range, and top out at half of Boulder’s market rates.

One key was maintaining the key asset of “very compact single-family homes, which is what people like about it,” says Martens. “We really wanted to preserve the cohesion of the community.”

Red Oak Park is notably energy-efficient, incorporating rooftop solar panels, Energy Star-rated appliances, and other sustainable features. Some residents’ monthly energy bills average less than $10 a month.

There’s also a community center, a free wireless network, and a curriculum of educational classes and workshops offered onsite.

Martens says the prime disappointment was a retention rate of only 33 percent of the residents, a result of the increasingly competitive market for 9 percent LIHTCs. Because of the lag that the competition added to the construction timeline, many tenants had to find other housing before the project was completed.

“At the end of the day, we were able to create a beautiful, sustainable, community-centered neighborhood that everybody’s very proud of,” she says. ULI agrees, and awarded Red Oak Park its Global Award for Excellence in 2012.

But repeating such a deal is no easy feat. “You just wonder how many developers can afford this,” says Thrive CEO Gene Myers, noting the subsidy totaled $50,000 to $100,000 per unit.

Still, free land is worth seeking and sometimes surprisingly available in unlikely and expensive locations. In pricey downtown Boulder, two churches are negotiating to partner with private developers to convert their parking lots into affordable housing. A 2015 study commissioned by ULI Washington, D.C., surveyed the potential for public agencies to donate surplus properties to be used for affordable housing. The study found that donated free land can reduce the cost of developing new affordable housing by a significant $25,000 to $100,000 per unit.

Zoning tweaks offer a more navigable path. Kimball Crangle, Colorado market president for Wisconsin-based developer Gorman & Company, says the state’s suburban-urban interface is changing and zoning needs to change with it.

“One city doing amazing work is Westminster,” says Crangle. With the arrival of commuter rail in July 2016, local officials are adopting a more urban approach for planning and zoning.

Gorman is working with the Adams County Housing authority to develop the $24 million Alto, which mixes 70 affordable homes with offices and community services next to a new commuter rail station, greenway, and park. The project will transform a suburban streetscape with dated garden apartments into a walkable, mixed-use urban setting.

Inclusionary housing zoning ordinances (IHOs), requiring that a certain percentage of homes in new developments be affordable in exchange for certain exemptions, can help counteract this dynamic, but they are often difficult to implement. If the incentive is too weak, developers often fight the policy or try to get around it. While inclusionary zoning has produced hundreds of affordable

“One city doing amazing work is Westminster,” says Kimball Crangle. With the arrival of commuter rail in July 2016, local officials are adopting a more urban approach for planning and zoning around the station area at 72nd and Federal. An attractive station design, new nature park, and collaboration with neighboring Adams County are luring new housing to this once-neglected area only 11 minutes by train to Denver Union Station.
homes in Aspen and Boulder, Denver’s IHO has produced few units and may be shelved under future plans.

An area for further study is the concept of "gentle infill" – the idea of strategically adding duplexes and small apartment houses to increase the diversity of housing supply within single-family neighborhoods. Housing advocates point to comfortable, traditional, and highly livable neighborhoods like Denver’s Congress Park that blend single-family homes with backyards with apartments and other housing types.

One such strategy involves accessory dwelling units, or ADUs – better known as carriage houses, or "granny flats" – hold promise of increasing density and the supply of affordable housing. While Durango, Arvada, and Denver have legitimized the form in recent code updates, new construction has been minimal in all three cities.

“Because of uncertainty there is fear—'I don’t want those people living by me'—when in fact that includes teachers and firefighters.”

—Bruce O’Donnell
President, Starboard Realty Group

In Denver, Blueprint Denver legalized new ADUs in about 20 percent of the city in 2010, but half of that tally is in the Central Business District where ADU development is infeasible. The end result is that only about 80 permits had been issued in the six years since. Conversely, the continent’s ADU standout Vancouver, British Columbia, allows them in 94 percent of the city and typically issues more than 350 permits annually.

"If Denver’s serious about closing the housing gap, this needs to be engaged," says Jesse Adkins, principal of Shears Adkins + Rockmore Architects in Denver.

While LIHTCs are good for 75-unit projects, the ADU’s backyard scale offers a different tact; ADUs could contribute to affordability for middle-income working people and students. "Looking at it through an urban design strategy, there’s a lot of opportunity throughout Denver for smaller-scale development," says Adkins, noting that a 500-square-foot ADU is inherently affordable. "It could have a significant impact on development of affordable homes."

In addition, the opportunity for a primary homeowner to lease a granny flat also makes their home more affordable.

Yet the public often pushes back against such neighborhood "infill" initiatives. Bruce O’Donnell, president of Starboard Realty Group in Denver, says his rezoning work has led to brushes with NIMBYism – short for the philosophy espoused by the phrase, "not in my backyard."

Affordable housing "is kind of a catchall phrase," says O’Donnell. "Because of that uncertainty, there’s fear – 'I don’t want those people living by me' – when in fact it could be teachers and firefighters." He recommends using a vocabulary that includes "workforce housing" and "mixed use" to combat negative connotations.
"Preservation is an extremely important part of the affordable housing puzzle," says Jamie Gomez, CHFA’s chief operating officer. “There’s not enough new housing, so it’s critical to not lose any of our existing affordable housing stock.”

Yet "in Colorado, we’re losing 3,000 affordable homes coming off deed restrictions every year," says Dick Taft, president and CEO of Rocky Mountain Communities. "We’re building at a rate of 1,800 homes a year.”

To this end, CHFA hired Beth Truby in April 2016 as the first preservation manager in its 40-year history. Truby is guiding a statewide strategy to inventory affordable housing, and build a comprehensive database spanning 80,000 homes. "We’ve now been able to map every single unit of affordable housing rental properties in the state," says Gomez.

CHFA is also assembling a "financing toolbox" to allow owners to renovate, refinance, and otherwise rework their strategies to keep properties affordable, Gomez says. "The key to it is getting to them years in advance – two, three, four years in advance," he explains. “At the end of the day, it becomes a business decision. We want to make it a good business decision to keep the properties affordable."
Rick Pederson, partner at Bow River Capital in Denver and adviser to funds managed by The Pauls Corporation, believes a private sector solution can attract investors to the nation’s large inventory of Class B and C apartment complexes. These are generally un-sexy but steady investments in stable neighborhoods.

"The best sites have already been built," says RedPeak’s Mike Zoellner of a proposed affordable housing pool program. “So let’s put affordable homes in there immediately. Let’s use these resources we already have.”

Pederson lays out a strategy of establishing private funds to acquire and rehab portfolios of apartments with a goal to "to keep the rents lower for this broad swath of workforce housing." This category of apartments features relatively affordable rents and very low vacancy rates, thus securing a steady cash flow for investors.

He cautions that an incentive is needed to keep prices affordable. A property tax freeze is one possibility, or low-interest financing for preservation of marginal homes.

"The private sector has to participate in this," Pederson says. "We have to get the free market involved or we’re never going to get to the heart of the problem."

In a similar vein, the Apartment Association of Metro Denver (AAMD) is preparing a proposal for a voluntary program for owners to commit a percentage of homes in market-rate buildings to an affordable pool in exchange for city subsidies. "This can have an immediate impact," advocates Mike Zoellner, CEO of RedPeak Properties. "This can happen next month."

In the proposal’s preliminary framework, there are gradients based on tenant income, apartment size, and building quality. The city would pay roughly $34,000 to $110,000 for 10 years of affordability on a one-bedroom apartment. By this math, $15 million could subsidize about 1,500 to 4,000 homes annually.

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At Aria Denver, Chuck Perry describes a "community-building" strategy, that encompasses local food, healthcare, and pedestrian networks. The resulting impact on residents’ household budgets "can dramatically help to improve the quality of people’s lives because they don’t have to decide between paying rent or paying for food, or paying rent or paying for medicine.”

“These days Boulder isn’t alone in its quest to figure out how to create homes in the $300,000 to $500,000 range when the going price on the free market is closer to $1 million.”

—“In pursuit of the affordable house in Boulder,” Daily Camera, August 22, 2016

Built on land acquired and banked by Urban Land Conservancy using Denver’s TOD Fund, the $12 million Evans Station lofts provides 50 affordable homes with rents starting at $385 a month.

Red Oak Park in Boulder redeveloped a poor-quality mobile home park with the same number of attractive, energy-efficient homes serving people at the same income.
Challenge # 1: Demand is Crushing Supply

It's Economics 101. Supply and demand. In some industries, just add a second shift in response to increased orders and voilà: You've got higher production.

In affordable housing, where there's sometimes a painstaking five-year process before shovel meets dirt, market dynamics can shift and shift again before the first tenants move into their new homes. Demand is sky-high, but there's no production mechanism to meet it.

The impact ripples throughout the economy. Estimates hold that Colorado loses about $2 billion in annual economic activity due to the increasingly high cost of housing. One in four Colorado renters spends more than 50 percent of their income on housing. A full 40 percent of Colorado’s renters now spend more than a third of their income on housing.

"As moderate to middle-income households buy and rent that existing housing stock, the people who get pushed out and left behind are the lower-income working families who can’t afford to compete."

– Ismael Guerrero, executive director, Denver Housing Authority

We’ve seen a perfect storm roll into the state in the wake of the foreclosure crisis. The population has grown as the economy boomed, but wages haven’t kept up with housing costs. The preceding lag in construction forced housing developers to play catch-up, while politics and policy make tax-funded affordable housing especially tricky.

According to U.S. Census estimates, more than 100,000 people moved to Colorado in 2015 while builders added only 25,000 homes to the housing stock.

Case Study: Aria Denver, Denver

Near Regis University, Denver’s Chaffee Park neighborhood remains fairly affordable but stands in the path of gentrification spilling over from Berkeley, Highlands, and Sunnyside. Aria Denver is a new mixed-income development seeking to get ahead of this curve while providing the type of healthy, walkable, healthy community not previously available in northwest Denver.

Formerly the site of the Sisters of St. Mary’s Marycrest convent, Aria Denver is a 17-acre master-planned development from Perry Rose and Urban Ventures adjacent to Regis University in northwest Denver.

Aria Apartments, with 72 affordable homes for tenants with 30 to 60 percent AMI, opened in 2013, and a 65-unit building, Aria Family Apartments is next on the schedule. Additionally, 27 of 263 for-sale townhomes will be priced affordable to buyers of 80 percent AMI.

"Aria Apartments was the catalytic project that resulted in the development of Aria Denver," says Perry. "Had it not gotten approved in 2011, Aria Denver would have died. There would have been no Aria Denver."

Why was it so critical? "Because of the nature of markets in transitional neighborhoods, the first project in can’t generate market-rate rents," answers Perry. "Once people see new construction happening and believe these sites are going to change for the better, it spurs revitalization in other areas."

At Aria Denver, Perry describes a "community-building" strategy, that encompasses local food, healthcare, and pedestrian networks. The resulting impact on residents’ household budgets, he says, "can dramatically help to improve the quality of people's lives because they don’t have to decide between paying rent or paying for food, or paying rent or paying for medicine."

Besides LIHTC financing, the $80 million project benefits from rock-bottom land costs of $2.58 million for 17.5 acres. The Sisters of St. Mary’s sold the property at a discount because of Aria’s inclusive and affordable aspects.

The target for full buildout is 2018, but fierce LIHTC competition could push that date back. Case in point: Perry Rose has submitted five applications for 9 percent federal LIHTCs to CHFA to finance Aria Family Apartments without success.
Roughly 40,000 homes would have been necessary to match the influx of new residents for 2015 alone.

Over time, that has added up to a shortfall of 100,000 homes for households with incomes of $20,000 or less, according to advocacy group Housing Colorado. Typically, developers build about 1,000 rent-subsidized housing homes in a good year.

The math is starkly simple: At the current rate, it would take a century to build ourselves out of the problem.

The scale of the problem is escalating. Heather Lafferty, executive director of Habitat for Humanity of Metro Denver, says her organization received about 1,000 applications for homes in 2015, triple the 2014 total. It’s on track to grow again in 2016. The Habitat program can only build about 40 new homes a year.

Challenge # 2: Funding and Finance

Most observers agree that both the state and Denver need permanent dedicated affordable housing funds. Colorado’s unique difficulty with funding stems from the state constitution: The Gallagher and TABOR amendments are big hurdles.

"Any prototype has to navigate through the TABOR and Gallagher filters, so there’s no perfect model," says Weining of Enterprise Community Partners.

TABOR explicitly bans new real estate transfer taxes, but many municipalities have pre-TABOR transfer taxes that are used to great effect to support affordable housing funds.

Some cities and states generate millions — even billions — in annual revenue with transfer taxes that generate funds when properties change hands. "A real estate transfer fee has always been a silver bullet or holy grail of these funding options," says Troy Gladwell, founder and principal of Denver-based Medici Communities. "It creates a ready and steady source that can be implemented statewide."

Denver’s new “two-pronged strategy” includes a mill levy (dedicated property tax) alongside what Mayor Michael Hancock calls “reasonable and modest” new “impact” fees on commercial and residential development. The target is to generate about $150 million for affordable housing in 10 years, half of that from fees on new development. As this went to press, Boulder was considering tripling its impact fees on commercial development to almost $30 a square foot, potentially increasing the overhead cost on new development by more than 10 percent.

Yet Denver’s fund may have a relatively modest impact of creating and preserving 6,000 homes over 10 years. Williams of the UII Terwilliger Center for Housing says a dedicated Denver fund needs to become a huge financial lever to make a big dent. A $15 million fund "is just not going to buy you much new development," he says. "A lot of these strategies are just going to hold the line."

While development fees are controversial, many for-profit developers are bullish a city fund could make an impact by leveraging more federal and state low-income housing tax credits (LIHTC). "It could help fill the gap in terms of more 4 percent deals," says Carl Koelbel.

If the city can treat monies as "grant or grant equivalent," its fund would make the biggest impact, says Medici’s Gladwell. "You need additional money to get to lower levels that require no mortgage," he adds. "It’s a huge step in the right direction, [but] the state credit is probably more egalitarian because it’s a statewide program."

Boston faces a supply disconnect like Denver. From 2010 to 2014, some 172,000 people moved into the region as developers built only 15,000 new homes. The typical cost of a Boston-area apartment is $2,400 a month, affordable only to households with incomes of at least $100,000.

On the positive side, with more than 50,000 homes -- or about 22 percent of all homes versus 9.5 percent in Denver -- Boston has the largest percentage of affordable housing of any major city in the U.S. Since 2000, about 30 percent of new homes have been affordable.

The creation of the stock has been an 80-year process. The city learned its share of lessons along the way. Preservation has been a key element, and the city has been successful at keeping privately owned affordable housing affordable. From 2009 to 2012, only 10 percent of affordable homes were lost.

Much of Boston’s success can be traced to Chapter 40B, a Massachusetts statute that enables local zoning boards to approve affordable housing developments under flexible rules if at least 20 percent of the homes have long-term affordability restrictions.

Bob Engler is principal of SEB, a Boston-based consulting firm specializing in affordable development. He says 40B has been an absolute necessity in metro Boston, but it’s no panacea. "40B really helps with the workforce, 60 to 80 percent AMI, but it doesn’t help with the whole spectrum," he explains.

Boston’s linkage fees -- at more than $8 per square foot for large-scale commercial projects -- typically provide more than $6 million a year and its inclusionary ordinance has generated about $5 million in cash-in-lieu monies since it was implemented in 2000.

Engler believes Denver’s "unbelievable growth" in recent years was something of a lost opportunity. "They missed the mark," he says. "When you have a strong market like Denver, you should be able to get affordability out of the developer if you give them more density."

"It’s all piecemeal stuff. The private housing market does not work well for half the population," says Engler. "I don’t have any big magic bullet. There has to be a will there."
Best Practices: Proven Strategies for Affordable Housing

A density bonus allows developers to build taller, denser housing developments in exchange for building a given share of affordable homes in a project.

Deed restrictions that limit annual appreciation of homes are used primarily for for-sale homes, and often keep a steady supply of workforce housing in areas with high housing costs. An owner buying a deed-restricted home agrees to limit the resale value to established percentage designed to preserve affordability for the next buyer.

Special funds like the TOD Fund can be used to bank parcels of land projected to jump in price.

Many creative developers are working with "anchor institutions" like hospitals, universities, and churches to secure free or lower-cost land and funding for development.

Community Land Trusts (CLTs) can buffer the markets ups and downs by separating land costs from affordable developments, as developers lease the land for the long term instead of buying it.

Special bond issues can provide the necessary monies to fund affordable projects.

Lodging taxes are a good funding source for affordable housing that lets tourist contribute.

Aspen's Affordable Housing Credit Program creates an investment market for speculative development of affordable housing.

In Portland, Oregon, and other municipalities, tax-increment financing (TIF) has been an effective funding mechanism for affordable housing in areas of urban renewal.

Impact fees (paid by the developer), while often controversial, provide many jurisdictions with a sizable source of funding for affordable housing.

Flexible zoning can allow for more density, less parking, or other exemptions for affordable housing projects.

At projects like Red Oak Park in Boulder, energy retrofits and renewable generation can reduce the housing costs of residents in the long term.

Habitat for Humanity’s Lafferty says policy changes are needed at the state level, noting, "The challenge is finding the funds to be a catalytic force."

Other states "have dedicated resources for affordable housing," says Miripol of ULC, which purchases and "banks" key sites near transit for future affordable housing development. "We don’t have that. Our state is so far behind. We’re one of the few states that doesn’t have a dedicated ongoing fund for affordable housing."

The State of Colorado’s LIHTC program "scratches the surface, [but] it’s not permanent," he adds. A document recording fee of just $10 would raise as much as $20 million annually, says Miripol, without TABOR ramifications. A transfer tax on all real estate transactions is another possibility, he adds, but TABOR is a big roadblock.

In Breckenridge, the Wellington Neighborhood provides extensive homeownership opportunities on a reclaimed mine only a mile from downtown. The project won the EPA’s Smart Growth Award in 2002.

Challenge # 3: Condo Conundrum

More starter homes and condominiums would help ease pressure on rents. To this end, says Tom Clark, CEO of Metro Denver Economic Development Corporation, the focus is construction defects reform.

The Colorado Court of Appeals' 2009 decision in General Security Indemnity Company of Arizona v. Mountain States Mutual Casualty Company chilled condo development statewide by limiting a contractor’s rights to commercial liability insurance arising from construction defect claims.

Since then, the number of lawsuits has skyrocketed. With too much exposure and too little insurance, developers and builders shy away from condo projects, which they say have become unprofitable.
Ski towns and their service communities place the particular challenge of housing thousands of service workers in costly housing markets. Failure to address this issue results in longer commutes, more traffic, and communities where the balance between second-home owners and locals is way out of whack.

To address this, Boulder-based Brynn Grey partnered with the Town of Frisco and the Summit Combined Housing Authority to develop 69 "semi-custom" homes on 12 acres between the town and national forest. Construction took place in five phases from 2011 to 2015.

Buyers in Peak One were required to be in the 80 to 160 percent AMI range, and many of them thought their household income of about $150,000 would disqualify them from the deed-restricted homes. About 10 percent of the homes were market-rate.

The deed-restricted homes initially sold for about $250,000 to $450,000, with the market-rate homes going for about $550,000 to $700,000. Appreciation for the deed-restricted homes is pegged to the change in AMI, and capped at 3 percent a year.

Efforts to introduce construction defects reform in the Colorado Statehouse have failed for several sessions running. In pursuing reform, the Metro Denver EDC has shifted its focus to local governments. "We will provide money to counties and cities to cover legal expenses [to fight construction defects lawsuits]," says Clark. "We haven't had any takers yet."

"It's not a ghost town with condos that aren’t occupied 50 percent of the year. It's real people, it's a real place, it's a real neighborhood."

– Kate Clement, director of marketing and operations, Brynn Grey, on Peak One in Frisco

As of 2009, condos represented more than 20 percent of new homes in Colorado. "That's a long way from [today's] 2.7 percent," says Clark, citing condos' current sliver of the market.

Clark points to condominium sales data as evidence of strong demand: In 2015, more than 11,000 existing condos were sold in metro Denver, but only 187 new homes came to market. "6,000 to 8,000 new condos on the market in the next two years would be welcome relief," he says.

Fewer condos (which tend to be built in areas of urban infill) means more sprawl, he adds. If you want to buy a starter home, "You don't have any option but to drive until you qualify."

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Outside-the-box strategies

Beyond LIHTCs and dedicated funds, there are a number of creative approaches to catalyze, preserve, and improve the delivery of affordable housing.

Aspen’s Certificate of Affordable Housing Credit program offers a market-rate tactic. "It’s creating a market where you get affordable housing built up front by the private sector," says Mike Kosdrosky, executive director of the Aspen Pitkin County Housing Authority (APCHA).

Developers build affordable housing and sell the credits to another developer to make money, instead of building onsite or offsite or writing a check to cover their affordable housing requirement ("cash in lieu"). The speed and flexibility of the private sector help cut through red tape, tout Kosdrosky. "It has a ton of potential. We’ve just scratched the surface."

Enterprise Community Partners’ Weinig advocates for "more and better renters’ rights" on a state level. "Compared to other states, we’re landlord-favorable and tenant-unfriendly," he says. "It could have as much impact as any financing or funds."

Weinig points to Mile High Connects’ Access to Opportunity Platform, a multi-pronged initiative to shore up renter protections, preserve existing affordable housing, and catalyze home ownership, as a good starting point for improvement.

Another creative strategy involves anchor institutions like hospitals, universities, and major employers investing in affordable housing. Vail Resorts is one local example: The Broomfield-based company, which employs about 18,000 people in Colorado during peak winter season, recently announced a $30 million commitment to affordable housing and is working with developer Gorman & Company on a 200-home project near Keystone.

Mile High Connects’ West calls Minneapolis-St. Paul and Cleveland models in this regard, and says it is currently a strategy her organization is pursuing. "There are some pretty active conversations," says West. "It’s a little about their own workers, but it’s also that they’re part of these communities."

Nonprofit hospitals have led the charge in several cities. Bon Secours of Baltimore Health System started developing affordable housing for seniors in the 1980s and now manages more than 700 homes through a subsidiary foundation. In Detroit, Henry Ford Health System has likewise invested in affordable housing.

West also sees social impact investment funds as a potential catalyst. "We’re still a little too early to state definitively, ‘This works,’ but I think there’s appetite there," she says. "They’re not thinking about built environment as a place that can provide social returns."
What's Next for Public Officials?

Take a hard look at regulatory changes to increase supply. This can include density bonuses for new development that includes affordable housing, or even more simply, allowing more homeowners to convert their garages and basements into "granny flat" apartments.

Example: In Denver alone, the potential for accessory dwelling units (ADUs), or "granny flats," could add 21,000 homes to the housing supply. Portland and Vancouver have streamlined regulations and provided incentives to increase the supply of ADUs.

What's Next for Real Estate Investors?

Look for opportunities to invest or create a fund to invest in stable neighborhoods, such as purchasing full apartment buildings in areas where rents are not rising. These are good, solid investments that provide steady cash flow for years to come.

What's Next for Neighborhood Activists?

Be proactive! Before developments are even proposed, approach property owners (especially of vacant lots) with your vision for new development that could improve your neighborhood.

When developers come knocking, engage early to express your vision, keeping open the possibility you will support compatible development.

Example: In 2016, Colorado hosted the first national "Yes In My Backyard" (or YIMBY) conference. More than 140 young community activists attended to support more housing choices where they live.

What's Next for Architects?

Many neighbors express legitimate concerns that the design of new developments does not complement their blocks. Study best practices to produce designs that suit the scale and feel of existing neighborhoods.

Examples: Denver’s Mariposa neighborhood includes buildings designed by different architects, in deliberately different styles, but complementary to the historic South Lincoln Park area.

Breckenridge’s Wellington neighborhood and Pitchfork in Mount Crested Butte draw upon the traditional architecture of mountain mining towns. Each provides a mix of market-rate and affordable homes.

“Mixed-income developments that include affordable units for hard working individuals and families are key to building healthy, vibrant communities.”

– Denver Mayor Michael Hancock
Affordable Housing Report Glossary Terms

Mill levy: The tax rate that is applied to the assessed value of a property. One mill is one dollar per $1,000 dollars of assessed value.

Impact fee: A fee that is imposed by a local government on a new or proposed development project to pay for all or a portion of the costs of providing public services to the new development; or to pay directly into an affordable housing fund.

Community Land Trust (CLT): A nonprofit organization created to acquire and hold land to provide affordable access to land and housing for community residents.

Area Median Income (AMI): Eligibility for subsidized housing programs are often determined by area median income (AMI). Many programs target 60 percent AMI and lower, and workforce projects are often 80 percent AMI.

Construction defects: A deficiency in the design or construction of a building resulting from a failure to design or construct in a reasonably workmanlike manner, and/or in accordance with buyers' reasonable expectations. Many observers say Colorado needs state-level reform to catalyze the development of condominiums.

Taxpayer Bill of Rights (TABOR) Amendment: The 1992 amendment of the Colorado Constitution that restricts revenues for all levels of government. Under TABOR, state and local governments cannot raise tax rates without voter approval and cannot spend revenues collected under existing tax rates without voter approval if revenues grow faster than the rate of inflation and population growth. Revenue in excess of the TABOR limit must be refunded to taxpayers, unless voters approve a revenue change as an offset in a referendum.

Low-income housing tax credits (LIHTCs): The federal government’s primary program for encouraging investment in affordable rental housing for low-income households. The state of Colorado also has a LIHTC program.

Inclusionary housing ordinance (IHO): A municipal or county ordinances requiring a given share of new construction to be affordable by people with low to moderate incomes.

Cash in lieu: Instead of building affordable homes on-site, many IHOs allow developers to pay cash to the municipality to fund development of affordable housing elsewhere in the jurisdiction.

What's Next for Environmentalists?
Recognize that the opposite of density is sprawl. Support compact, transit-oriented, mixed-income infill development as a best practice to protect the environment.

Example: The Sierra Club supports smart growth nationally, including “building more affordable housing close to transit and jobs.”

What's Next for Public Agencies and Institutions?
You may be sitting on an affordable housing gold mine. Public agencies, school districts, hospitals, universities, and religious organizations can assess their surplus properties and in some cases joint venture with for-profit and nonprofit developers to create affordable housing. Properties that drain budgets can be turned into true community assets.

Examples: In downtown Boulder, several churches are making their parking lots available to build affordable senior housing and transitional housing for homeless teens.

In Arlington County, Va., the county government donated land worth $8.5 million to a nonprofit corporation that built 122 affordable apartments. The donation decreased the cost to build each home by $60,000.
ULI Colorado
Leadership in Responsible Land Use
ULI Colorado is the 1,258-member District Council of the global Urban Land Institute. ULI Colorado consists of a four-person staff, 25-member executive committee, and 15 committees with more than 250 volunteers. More than 40 programs a year include advisory panels, leadership and mentoring programs, panels, project tours, publications, and community service. ULI is a non-lobbying educational and research institute supported by its members, sponsors, and foundations. Key issues include affordable housing, healthy communities, transit-oriented development, and sustainable design and planning.

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