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Bike sharing program grows to 87 stations, implements new pricing. **CATHY PROCTOR, A14**



David Zucker of Zocalo Community Development

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OPENING THE DOOR TO AFFORDABLE HOUSING

A housing crisis grips Denver, and officials have an ambitious plan to create more low-cost units. But can it get off the ground? **BY MOLLY ARMBRISTER, COVER STORY, A4**

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Finding new paths to affordable homes

Foundry project in Englewood to contain 70 lower-cost units. **MOLLY ARMBRISTER, A10**

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COVER STORY

Denver's plan to pay for cheaper housing

Higher property taxes and development fees are in the offing to finance additional low-cost units.



Carl Koelbel, vice president of Denver development firm Koelbel and Co., looks over an affordable development site near Ninth and Colorado Boulevard in Denver.

KATHLEEN LAVINE, BUSINESS JOURNAL

BY MOLLY ARMBRISTER
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The story is all too familiar. Rising home prices, skyrocketing rents and the constant influx of new residents are creating a huge gap between median wages and the cost of shelter, especially in Denver.

Many with jobs in the city can only afford to live in the suburbs, lengthening commutes and placing more strain on the metro area's roads and transportation systems.

Young adults burdened with student debt are forced to live with parents or other family members. Older Coloradans have to move in with younger generations when medical bills or other expenses stack up.

As home prices rise and wages lag behind, the need to build more affordable housing is intensifying.

Now, the city is poised to do something about it.

Denver leaders have a plan to raise \$150 mil-

lion to create a permanent affordable housing fund, something Denver has never had before. The fund would be created through an increase in property taxes and a new fee on development.

An estimated 6,000 housing units could be built with money from the fund over time by leveraging the money to create a bigger pool of cash, then disbursing it through a combination of potential funding mechanisms to get the money into builders' hands.

Precisely how the money will be used will be determined by the city council this summer, but the scope is expected to be wide-ranging, helping pay for permanent housing – both for rent and for sale – as well as transitional housing

projects for the city's homeless. Some money also could go for direct assistance for residents.

There's widespread agreement about the need for more affordable housing, like those who can't find a place to live and the city's economic development officials, who are worried about where companies will put their employees.

Tom Clark, CEO of the Metro Denver Economic Development Corp., often notes that the Denver metro area has the highest home prices of any city in America that's not on a coast.

The average price of a home in metro Denver is up 26 percent in the last two years and the average rent is up 22 percent in the same period, according to local industry group data.

But while the development community acknowledges there's an affordability problem here, some worry about increasing fees and taxes to help finance more low-cost housing, especially when other costs, from land prices to labor, are going up, too.

Denver estimates it has to raise \$15 million per year for 10 years to make a dent in the problem. The city is waiting on the results of an outside analysis to determine how high of a development

MORE ON THIS REPORT

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An affordable housing project is rising in Englewood. **Page A10.**

AT DENVERBUSINESSJOURNAL.COM

Suburbs work on their own plans to deal with the affordable-housing issue.

COVER STORY

linkage fee it can legally charge developers.

That study, being conducted by California-based development advisory firm David Rosen Associates, as well as a feasibility study, are expected by the end of May.

The mayor's office and the Denver City Council will then begin the task of deciding how much to charge developers in new fees and how much to increase taxes.

The plan has to make it through the council, which is expected to take up the issue sometime this summer. If approved, the fund would start collecting money in 2017.

Taxes and fees together

Denver officials expect they'll raise the \$15 million per year for the next 10 years using a combination of increasing property taxes by up to one mill and a development fee on new projects.

The city is allowed to do that without a new vote because of a 2012 voter-approved ballot measure that lets the city keep a portion of excess revenues from the property tax rates already in place.

Levying the new development fee, which doesn't require a vote because it's not considered a tax, would be charged on a per-square-foot basis.

Under the city's proposed affordable housing plan, property owners would pay from one-quarter to one full mill of property tax that they weren't paying last year.

For residential property owners, the impact would be relatively inconsequential. On a \$350,000 home, property taxes paid on the 2016 mill levy of 78 mills would be \$2,173, and adding one more mill would only increase that number by about \$28.

But for commercial owners, who pay three times as much in property tax as residential owners in Colorado, the change could add up quickly.

The so-called linkage fee – a one-time fee that would be charged on a per-square-foot basis to developers for the purpose of contributing to the affordable housing fund – is more straightforward. The fee would be charged to new development in the city, although it hasn't yet been decided if the fee will be levied on commercial or residential development or both.

The consultant's study will help Denver decide how it raises the \$15 million, and what the legal maximum fee would be, said Rick Padilla, director of housing and urban development for the city.

Denver is going one step further by conducting a feasibility study, Padilla said. That will help determine what level of fee on development is reasonable to help meet affordable housing demands without stifling development.

By combining a tax increase with a development fee, the city would ensure that money will flow into the fund no matter what the development climate in the city, Padilla said. Income from the development fee would ebb and flow depending on how much development is occurring, but the property tax income will remain relatively steady across the years.

Out-of-state options

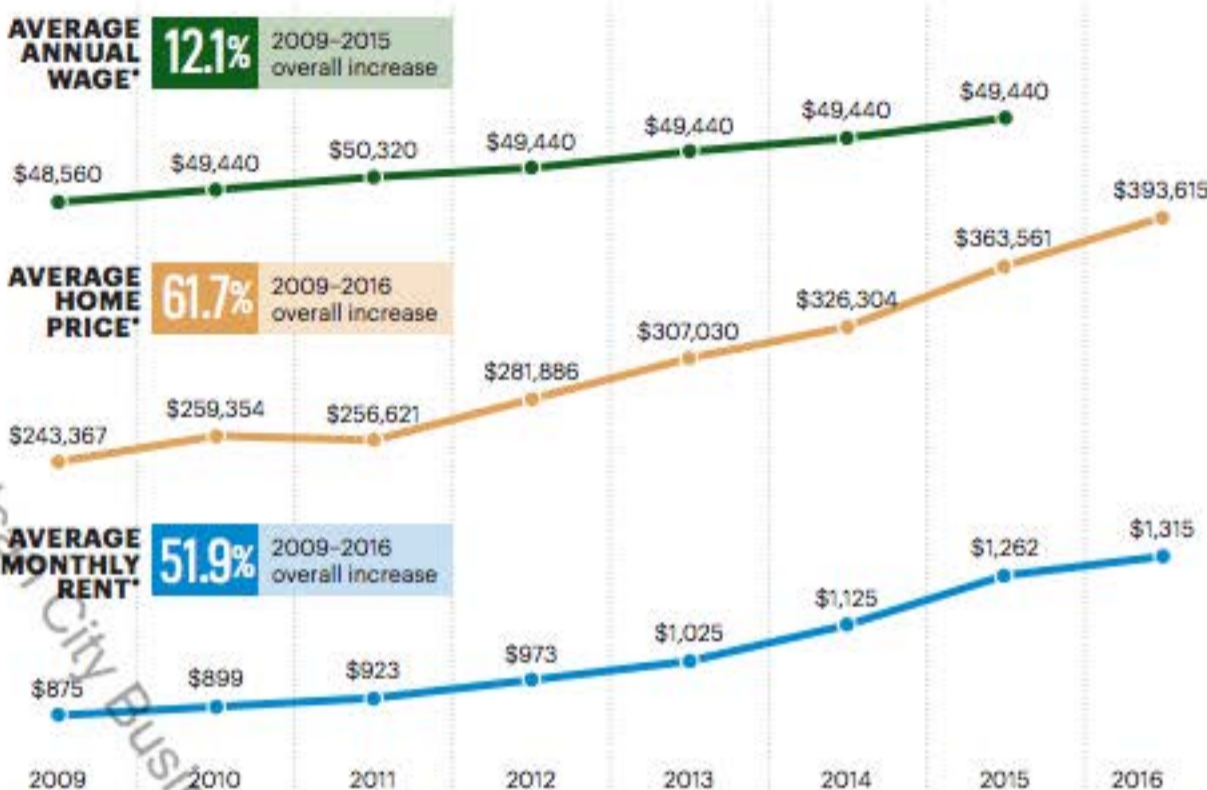
Typically, linkage fees are levied on developments that generate more new jobs. The logic is that the people who fill those jobs will need somewhere to live.

Office and retail developments, for example, might be charged a higher fee than, say, an industrial warehouse.

That is precisely the case in Boulder, which

WAGES LAGGING BEHIND HOME PRICES AND RENT

Home prices and rent increases in metro Denver have run away from wages in recent years, making a solution for affordable housing even more critical.



*Note: Wages: through 2015; Home price: through April 2016; Rent: through first quarter 2016

Sources: U.S. Bureau of Labor Statistics (wages), REcolorado (home price) and Apartment Association of Metro Denver (rent)

passed its own linkage fee to help fund affordable housing in June 2015, said Chris Meschuk, senior planner at the city of Boulder.

New office developments carry the highest fee in Boulder, with a one-time charge of \$9.53 per square foot, while storage facilities are charged only 9 cents per square foot.

In addition, Meschuk said, varying uses within the building are rated differently. For instance, industrial buildings often include both warehouse and office space, or an office building might have retail on the ground floor. These different uses are charged a different fee under Boulder's rules.

Boulder also implemented a phased-in approach to its linkage fee to help developers adjust to the change. At first, they were required to pay just 25 percent of the full fee, with that amount increasing by 25 percent every quarter. Developers will be paying the full fee in Boulder starting in June.

Boulder is re-evaluating its fee structure because the existing fees were decided upon using a study conducted in 2009 and 2010, Meschuk said. The updated analysis will also be ready in June.

Other cities – like Seattle, where housing prices have been soaring for years – vary their fees based on geography as well as by product type.

In November, Seattle instituted a linkage fee for office and apartment developments that goes as low as \$5 per square foot in lower-cost areas of the city and up to \$17.50 in high-cost areas. The fees are contingent on zoning changes that allow builders to build larger projects in certain areas of the city.

Eighty-five to 90 percent of developers in Seattle have bought into the new rules, said Maria Barrientos, a veteran apartment developer in the city who was part of a task force that spent more than a year coming up with the fee structure.

Developers opposed the Seattle linkage fee fiercely when it was first proposed and even

assembled a legal fund to fight the city in court. Seattle's mayor appointed a 30-person task force that came up with a compromise.

"We met every single day, for two hours a day, for three months," said Barrientos, who served on the task force.

Allowing developers to build bigger buildings in exchange for a contribution to a given public benefit, such as affordable housing in this case, is commonly known as a "density bonus." Denver hasn't removed that idea from the list of options, but that would be harder to implement here because of zoning changes made city-wide in 2010, said Laura Brudzynski, community development representative in the city's division of housing and neighborhood development.

Denver in 2010 switched to a so-called "form-based" zoning code, which means that certain areas are zoned for certain building types and heights.

Because some areas of the city already allow for increased zoning, it would be difficult to create a blanket density bonus for the whole city, Brudzynski said, but the bonus could theoretically apply to certain areas of the city as a trade-off for helping with affordable housing.

Initiative interaction

Denver's proposed housing fund is designed to work in tandem with some existing city affordable housing initiatives while replacing others, according to city officials.

Various efforts by Mayor Michael Hancock's administration will continue, filling the void before the new fund can start generating money and maintaining current levels of affordable housing creation.

The mayor's "3-by-5 Housing Initiative," which he announced in 2013 with the goal of creating 3,000 new affordable housing units in five years, has resulted in the creation of more

CONTINUED ON PAGE A6

COVER STORY



"A better structure for affordable housing is needed in Denver, because right now the burden falls on residential development alone, but offices are creating jobs," said Amy Cara, partner at East West Partners.

KATHLEEN LAVINE, BUSINESS JOURNAL

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than 2,300 units finished or planned so far, or about 78 percent of the goal number, with more than two years left to go.

Hancock also in February 2015 launched a \$10 million revolving loan fund for affordable housing with assistance from the Colorado Housing Finance Authority and has appropriated \$8 million from the city's general fund to address affordable housing in the 2017 budget.

But these temporary funds are just not enough to demonstrate the city's desire to mitigate the lack of affordable housing in Denver in the long-term, Hancock said.

The temporary solutions put in place were a precursor to the permanent fund, he said.

"Initiatives like 3-by-5 were really designed to demonstrate to the marketplace that the city of Denver wanted to be a viable partner, a player in this effort," he said. "It was really meant as a way to inspire, to empower the industry to pay attention to affordable housing. They were not meant to be permanent initiatives. They were meant to serve symbolically but also to deliver results. To say 'we can do this when we set goals.'"

Hancock also wants Denver to demonstrate that creating housing for all is a priority not only today, but years into the future.

"Don't tell me your values; show me where your money's going and I'll tell you what your values are," he said.

Another existing effort at funding affordable housing will face potential replacement with the new fund in place, said Denver Councilwoman Robin Kniech, who helped shepherd the inclusionary housing ordinance through the council and is now spearheading the effort to create the new fund, along with Councilman Albus Brooks.

The inclusionary housing ordinance was passed in 2014 and required all residential projects with 30 units or more to include at least 10 percent income-restricted units or pay into a city fund dedicated to affordable housing.

But if the new linkage fee is applied to residential development, Kniech said, the inclusionary housing ordinance will have to go away.

Put simply, she said, it's not legal to charge developers two fees for the same thing.

How much is enough?

"It depends," said Carl Koelbel, vice president of Denver development firm Koelbel and Co., when asked if he could get behind the idea of increased property tax and a new development fee to fund affordable housing. "I'd be willing to accept it under a couple of conditions."

First, Koelbel said, the fee must be "reasonable," or \$1.50 per square foot at most, and second, fees charged under the inclusionary housing ordinance must be eliminated. In addition, he would like an upper limit placed on the fee so it can't be increased beyond the pace of inflation in the future.

Denver estimates it has to raise \$15 million per year for 10 years to make a dent in the affordable housing problem.

"The city has taken the position that affordable housing is a societal concern and I applaud them," Koelbel said. But, he still has concerns about new fees and taxes, especially in light of the current cost of doing business in real estate.

Construction costs have increased 50 percent in the last five years, Koelbel said, and labor shortages in construction mean that contractors, particularly specialized sub-contractors, must pay a premium for workers to complete jobs.

Koelbel and Co. is building 112 units of affordable housing at Denver's Ninth and Colorado redevelopment project, Koelbel said, the fourth affordable housing project the company has done since 2010. The city's revolving loan fund helped finance the project, which is expected to be complete in June 2017, he said.

"We'll happily support a fee in combination with a mill if it's at the right price point," Koelbel said.

The city hopes that the feasibility process will help strike the right balance.

"I think there's an absolute value in being transparent and communicative with those who are impacted by any fee or transaction you're trying to carry forward in the city," Hancock said. "So we'll continue to be as transparent as possible with the development community, as well as communicative with them about

what we're doing and why the number is set the way it is."

To that end, the task force in charge of determining the feasibility of a linkage fee includes members of the development community, including Amy Cara, partner at East West Partners.

A better structure for affordable housing is needed in Denver, Cara said, because right now the burden falls on residential development alone, but new office projects are creating jobs, which creates need for more housing. East West develops both commercial and residential projects.

The task force will have to see the results of the consultant's study before it can make recommendations, but no option should be off-limits, Cara said.

"Everything needs to be on the table right now," she said.

Another Denver developer, David Zucker of Zocalo Community Development, was on a task force that essentially served as a precursor to the current one, making the recommendation to the mayor that an affordable housing fund was needed in the first place.

But in light of the need in Denver, Zucker, a longtime affordable housing advocate and member of the Colorado State Housing Board, said the plan needs to go even further.

Federal budget cuts have led to a 35 percent decline in federal funding for affordable housing in Denver in the last five years, said Padilla of Denver Housing and Urban Development, and Denver's growing home prices and bulging population count have pushed the need for housing up at the same time.

City officials hesitate to give a precise number of units needed in the city, saying that such a statistic is a "moving target." Instead, they reference how many households in the city are "cost burdened," or those that pay more than

30 percent of gross monthly income for housing and utilities.

According to city data, just under 76,000 households in the city making between zero and 60 percent of area median income are cost burdened. Sixty percent of area median income in Denver is \$47,940 for a family of four.

Because of that need, Zucker argues that a ballot measure should be taken to voters to raise property taxes by three mills and the affordable housing fund should aim for \$30 million per year instead of just \$15 million.

"I don't think we're being taxed enough," he said. "We need to think bigger. We've reached a point of recognition in the culture and fabric of the population of Denver that we have to do more for those of lesser incomes."

Hancock admits that the new fund won't solve the problem completely, but says that government is only one-third of a partnership that needs to work together to address housing issues in the city.

"We've never said this is the end-all, be-all," he said. "We felt like we needed to be a responsible, bold partner in this effort and whatever we do should always be about correcting the market failure or at least moving it in the right direction. But really, with the private sector and the nonprofit sector, we all have a role to play in helping to fill the gap." ❧