Housing Affordability in Stapleton: Conditions and Strategies

Stapleton Foundation

FINAL REPORT

Final Report

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Housing Affordability in Stapleton: Conditions and Strategies

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Introduction

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Background

The Stapleton Foundation was established in 1990 to chart a vision for the Stapleton neighborhood and has continued to protect that vision as the neighborhood developed. As home prices across the metro area rise and Stapleton nears complete buildout, the Foundation is interested in understanding ways to preserve existing affordable housing stock and facilitating access to the neighborhood for an income diverse set of households—particularly those earning 100 percent of area median income (AMI) and below.

The Foundation contracted BBC Research & Consulting to research the structure and impact of potential market interventions on the relative affordability of the Stapleton neighborhood. This report documents the results of that research. It begins with an assessment of existing affordability conditions and then evaluates the feasibility and impact of various market interventions.

Key Findings

Key findings are presented below as answers to the primary research questions.

What products affordable to households earning about 100 percent AMI are being provided by the private sector? Public sector? At what point will permanent affordability/deed restrictions be the only option for affordability?

Currently, about 5 percent of for-sale homes in Stapleton are market-rate affordable at 100 percent AMI (assuming a four-person household size)—all of those homes are attached products. Another 8 percent of for-sale homes are income restricted to guarantee affordability to households earning less than 80 percent AMI—all of those homes are attached products as well.

The income-restricted products lose their affordability guarantee 15 years after construction. Forty-percent are at risk of converting to market-rate in the next five years and the remainder will expire by 2032. An income and home price projection model developed for this report indicates that by 2031, the private sector is not likely to provide any market-rate affordable products to those earning 100 percent AMI.

Thus, in just fifteen years, the only option for affordable home purchase at 100 percent AMI would be deed restricted units, many of which will have "timed out" of affordability.

The rental market is somewhat more affordable than ownership options in Stapleton. A four-person 100 percent AMI household can afford about two-thirds of market-rate rentals in Stapleton and a 2-person 100 percent AMI household can afford nearly half of market-rate rentals. Another 22 percent of rentals are income restricted to be affordable to household earning less than 60 percent AMI; those units have a 30 year term on affordability. About half are at risk of converting to market rate by 2037.

What market interventions could be employed to provide long term affordability?

The toolkit of intervention options includes down payment assistance, existing market-rate home acquisition (and conversion to affordable), preservation of affordable owner properties in perpetuity through a land trust, and a broadened approach to land banking to include parcels in adjacent neighborhoods to Stapleton.

BBC's recommendations—based on the market affordability analysis along with stakeholder interviews—are preservation of affordable owner occupied properties using a land trust model and development of a flexible capital pool for strategic acquisitions of homes and/or land parcels for affordable conversion. BBC also recommends the Foundation consider a strategic planning process to provide vision and consensus on the Foundation's role in sustaining income diversity.

How is the market likely to react to the identified public interventions? What type of "return"—i.e., number of units affordable to 100 percent AMI households—can the Foundation expect to receive from market interventions?

XXX BBC will refine this once the Foundation Board discusses potential interventions and expected resources XXX

SECTION II.

Current Conditions and Future Affordability

SECTION II.
Current Conditions and Future Affordability

This section examines the existing conditions of the Stapleton neighborhood through the lens of affordability. It begins with a socioeconomic snapshot of residents followed by a market overview of rental and ownership housing options in the neighborhood and concludes with affordability projections through the year 2031.

It should be noted that some data reflect a lag from current conditions: the most recent American Community Survey data for the Stapleton neighborhood are annual averages over a five-year period from 2011 through 2015.[1] Market data provided by Forest City reflect current conditions through year end 2016.

At build-out, Stapleton is expected to include approximately 8,000 for-sale homes and 4,000 multifamily rental homes for a total of 12,000 residential units.[2] As of January 2017, 8,570 units had been developed—6,961 for-sale units (81%) and 1,609 (19%) rental units. In 2016, the median home price was $507,000 (including market-rate new construction and resales of both attached and detached homes). Median market rent was about $2,400 per month in 2016.

According to the Stapleton Affordable Housing Plan (January 2001), at least 20 percent of Stapleton rental housing must be affordable to households earning 60 percent Area Median Income (AMI) or less and 10 percent of Stapleton for-sale housing must be affordable to households earning 80 percent AMI or less. At buildout, this means about 1,600 homes (800 rental and 800 for-sale units) will be affordable—13 percent of all Stapleton homes. As of the end of 2016, the neighborhood has 361 affordable rentals and 391 affordable ownership homes for a total of 752 affordable residential units—slightly less than half the total obligation and about 9 percent of existing residential development.[3]

Resident Demographics

Compared to the city overall and surrounding neighborhoods, Stapleton residents are more likely to be higher income, identify as non-Hispanic white and have young children.

Race and ethnicity. Eighty-three percent of Stapleton residents identify as non-Hispanic white. Seventeen percent identify as a racial or ethnic minority (5% Hispanic, 5% African American, 5% Asian, and 2% other or multi-racial). Minority residents—particularly those of Hispanic descent—are underrepresented in Stapleton compared to the city (45% minority) and

[1] All ACS data presented in this report reflect households or population in households and therefore exclude group quarters populations (e.g., Denver County jail residents). Stapleton is defined as Census tracts 41.06 and 41.07. Lowry is defined as Census tract 44.05.

[2] These estimates and the percentage of renter vs owner units are not set out in any agreement or commitment but are used by Forest City as a general guide to provide an understanding of housing diversity in the neighborhood.

[3] The 391 affordable ownership home count includes homes sold or currently under contract.

the metro as a whole (33% minority). The Lowry redevelopment has more racial/ethnic diversity than Stapleton with 21 percent of residents identifying as a racial/ethnic minority. That said, both Lowry and Stapleton are more reflective of Metro Denver overall than the City and County of Denver—the exception being persons of Hispanic descent.

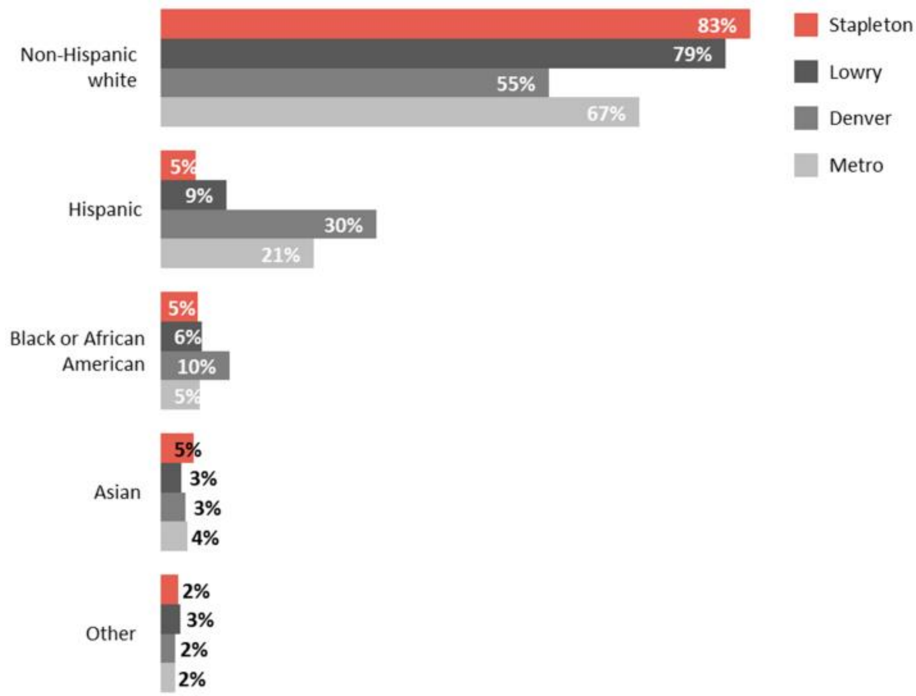
Figure II-1. Racial and Ethnic Distribution of Residents, 2011-2015

Note:

Universe is population in households.

Source:

2011-2015 American Community Survey and BBC Research & Consulting.



Though not shown in the figure, neighborhoods surrounding Stapleton have a higher proportion of minority residents: 57 percent of residents in the East Colfax neighborhood and 49 percent of the entire Park Hill neighborhood (Colfax to I-70 between Colorado and Quebec) identify as a racial or ethnic minority.

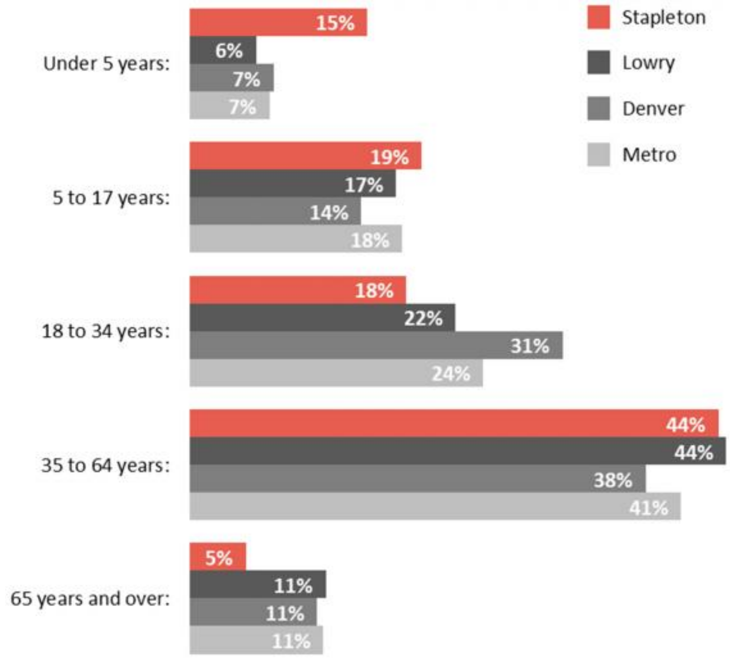
In South Park Hill (Colfax to 23rd Ave. between Colorado and Quebec) 20 percent of residents belong to a minority group and in North Park Hill (23rd Ave to MLK Blvd between Colorado and Quebec) 46 percent of residents belong to a minority group. Northeast Park Hill (MLK Blvd to I-70 between Colorado and Quebec) is 82 percent minority.

Age and household composition. Figure II-2 displays the age profile of Stapleton, along with comparisons for Lowry, Denver and the metro. As illustrated, Stapleton has a high proportion of children—particularly children under five years of age—and a relatively low proportion of seniors.

Figure II-2.
Age Distribution of Residents, 2011-2015

Note:
Universe is population in households.

Source:
2011-2015 American Community Survey and BBC Research & Consulting.



Half of all Stapleton households include children—most of those in married-couple family households—compared to about a quarter for the city and for Lowry, and one-third for the metro area.

Figure II-3.
Household Composition and Characteristics, 2011-2015

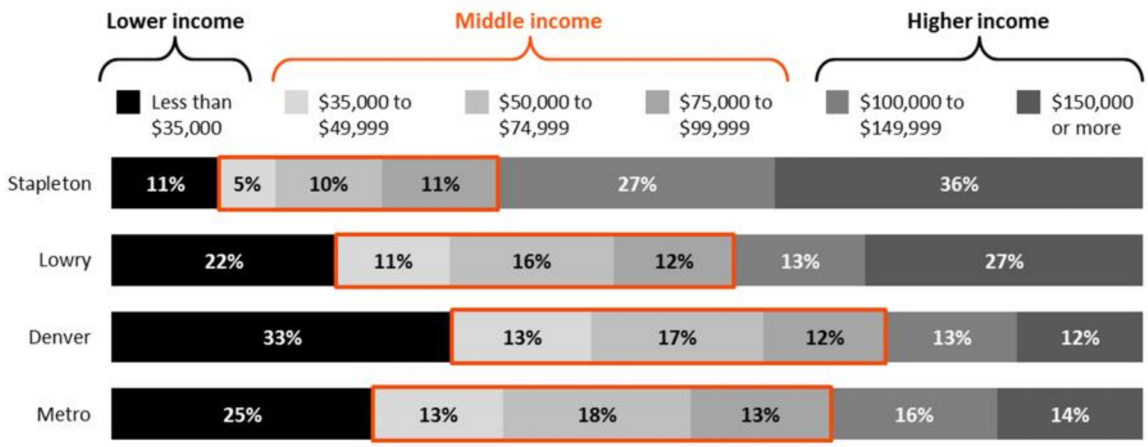
	Stapleton	Lowry	Denver	Metro
Total households	5,779	3,823	275,795	1,042,103
Total families	65%	50%	48%	63%
Married-couple family household	53%	40%	34%	48%
with children	40%	21%	15%	21%
Other family household	11%	10%	15%	15%
with children	9%	7%	8%	9%
Non-family household	35%	50%	52%	37%
Living alone	27%	43%	39%	29%
Other HH characteristics				
Households with one or more people under 18 years	50%	28%	26%	33%
Households with one or more people 60 years and over	16%	28%	27%	30%
Unmarried partner households	8%	7%	8%	7%

Source: 2011-2015 American Community Survey and BBC Research & Consulting.

The nearby Park Hill neighborhood has a lower proportion of children and higher proportion of seniors than Stapleton and the city overall. About one-third of all households in Northeast Park Hill and North Park Hill have children and 29 percent of households in South Park Hill have children. Households with at least one member aged 60 or older comprise about one-third of all households in Northeast and North Park Hill; 38 percent of homes in South Park Hill include someone 60 years or older. In the East Colfax neighborhood about one-quarter of households include a child and one-quarter include a resident 60 years or older.

Household income. Figure II-4 compares the income distribution in Stapleton to Lowry, Denver and the metro as a whole. Nearly two-thirds of Stapleton households earn $100,000 or more, compared to 40 percent of Lowry households, 25 percent of Denver households and 30 percent of metro area households. About one-quarter of Stapleton households are "middle income," earning between $35,000 and $100,000 per year.[4]

Figure II-4.
Income Distribution of Resident Households, 2011-2015



Note: The "middle income" designation in this figure approximates an income range from two-thirds the national median ($35,925) to double the national median ($107,778), using the nearest ACS data category breaks—an industry standard for income categorization.

Source: 2011-2015 American Community Survey and BBC Research & Consulting.

Median household income in Stapleton is about $120,000—nearly double the median income of the metro area ($67,000) and more than double the median of Denver ($54,000). Stapleton's median is also higher than Lowry ($77,000) and North and South Park Hill ($79,000 and $105,000, respectively).

Renter/owner household characteristics. According to ACS data, 72 percent of Stapleton households are owner-occupied, a much higher proportion than the city (49%) and even the metro (63%). Figure II-5 shows renter and owner household characteristics for Stapleton, Lowry, Denver and the metro.

Within each geographic area shown, owners are more likely than renters to have children (and larger households on average) and higher incomes. Owners are less likely to experience cost burden (defined as spending 30% or more of income on housing costs).

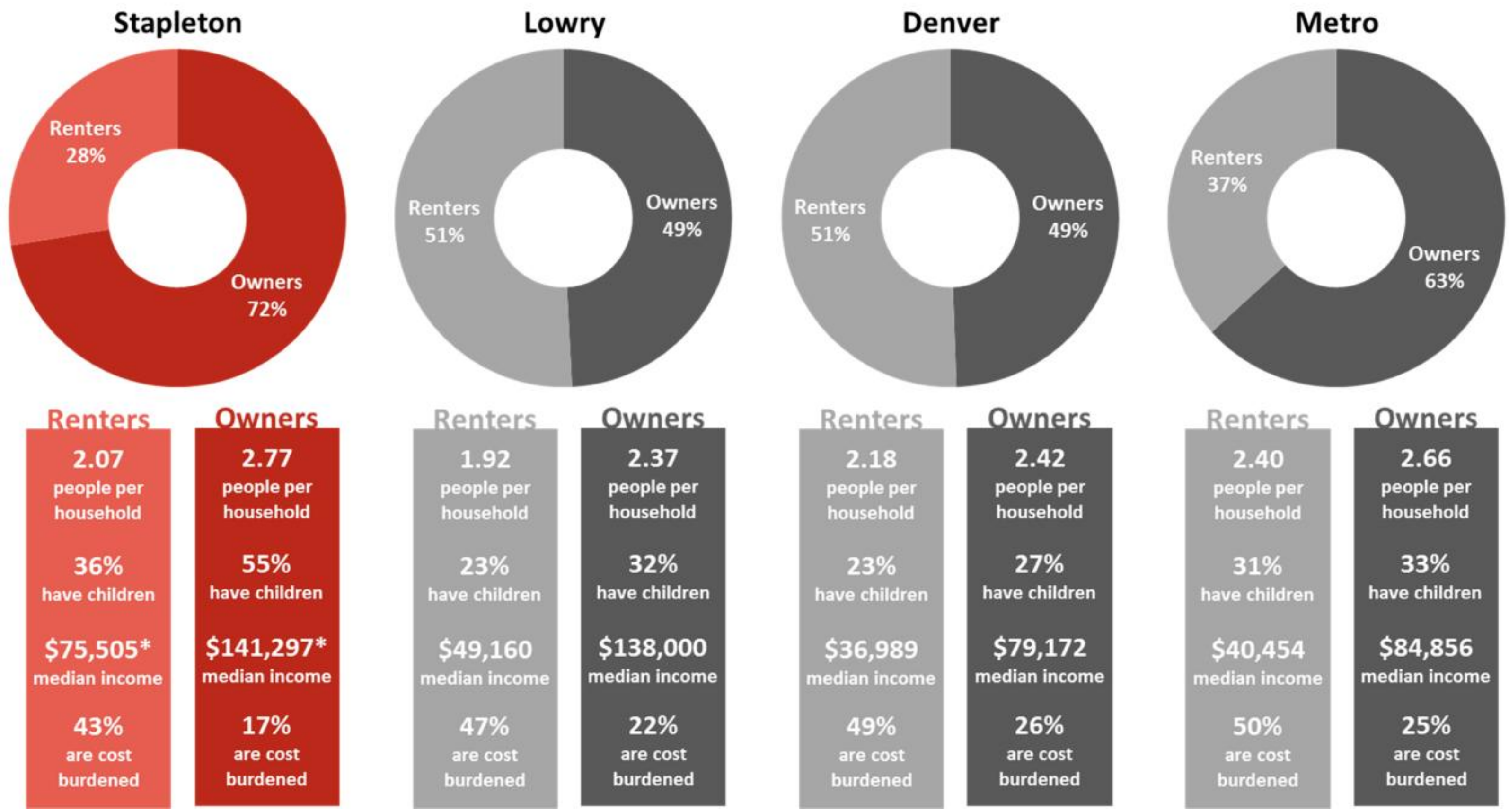
In Stapleton both renters and owners have larger households, more households with children and higher incomes than their counterparts in Lowry, Denver and the metro overall. Stapleton

[4] This "middle income" designation approximates an income range from two-thirds the national median ($35,925) to double the national median ($107,778), using the nearest ACS data category breaks—an industry standard for income categorization.

renters have a median income of nearly $76,000, compared to $49,000 in Lowry, $40,000 in the metro overall and $37,000 in Denver. Median income for owners in Stapleton is about $141,000—much higher than median owner incomes in the comparison geographies.

About 43 percent of renters and 17 percent of owners in Stapleton spend more than 30 percent of their income on housing costs ("cost burden"). Rates of cost burden for both renters and owners are lower in Stapleton than in Lowry, Denver and the metro. Though housing costs are relatively high in Stapleton, the current neighborhood residents are generally able to afford those costs.

Figure II-5.
Profile of Renters and Owners, 2015



Note: *Median not available for Stapleton as a whole; value shown reflects weighted average of the medians in both Stapleton Census tracts.

Source: 2011-2015 American Community Survey and BBC Research & Consulting.

Housing Market Trends

This section provides an overview of Stapleton's housing stock and price trends in both the rental and ownership markets.

Product diversity. According to ACS data from 2011-2015, 60 percent of Stapleton's housing units are single family detached and 40 percent are attached. That mix is similar to the metro area overall, but compared to the City of Denver and peer neighborhood Lowry, Stapleton's share of attached units is relatively low. Figure II-7 (on the following page) displays the units in structure for Stapleton, Lowry, Denver and the metro.

Stapleton's attached housing stock is comprised primarily of single family attached (e.g., paired homes) which account for 15 percent of all housing stock in the neighborhood, followed by large multifamily buildings of at least 20 units (10% of all units).

Although Stapleton has a relatively low proportion of attached units, the emphasis on small-structure attached means that attached units are more likely to be integrated with single family detached throughout the neighborhood.

Figure II-6, compares size of homes (by bedroom) for Stapleton, Lowry, Denver and the metro. Over two-thirds of Stapleton's homes have at least three bedrooms, compared to 58 percent of homes in the metro, 41 percent in Lowry and 40 percent in Denver.

Figure II-6.
Number of Bedrooms, 2015

Source:

2011-2015 American Community Survey and BBC Research & Consulting.

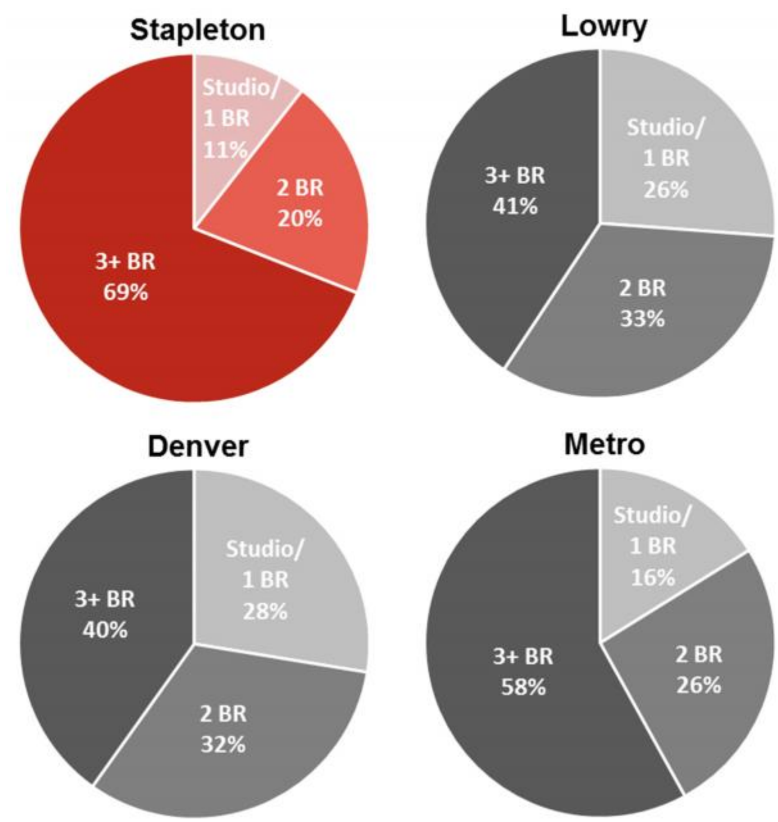
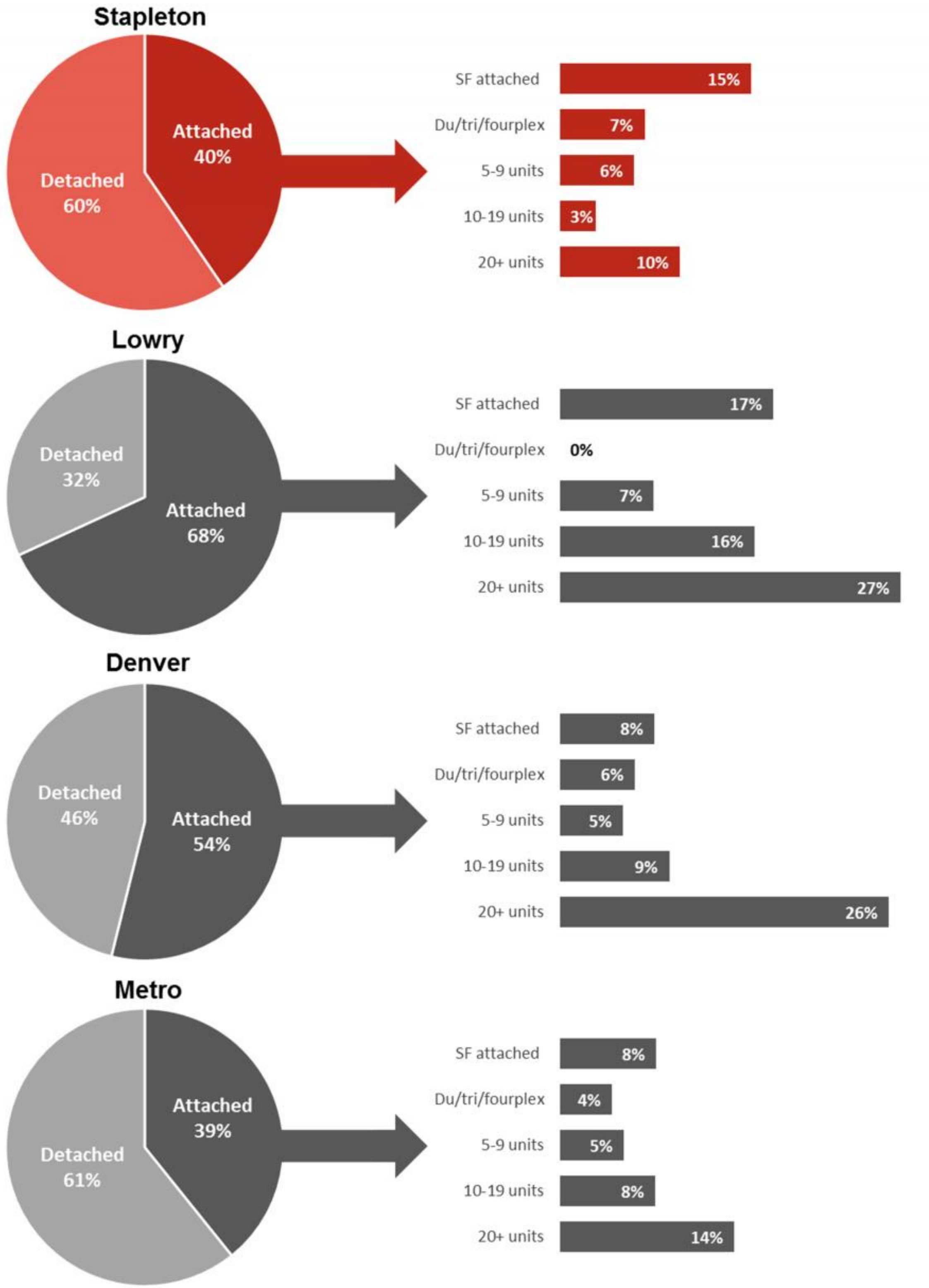


Figure II-7.
Housing Structure Type, 2015



Source: 2011-2015 American Community Survey and BBC Research & Consulting.

Rental market overview. According to Zillow rental data, median market-rate rent in Stapleton was about $2,300 in December 2016, compared to $1,900 in Denver and $1,800 in the metro overall.[5] It should be noted that zillow data include both single-family rental properties and multifamily apartment buildings. Focusing on market-rate multifamily apartment complexes yields lower rents on average, though developments in Stapleton still command higher rents than in Denver or the metro overall.

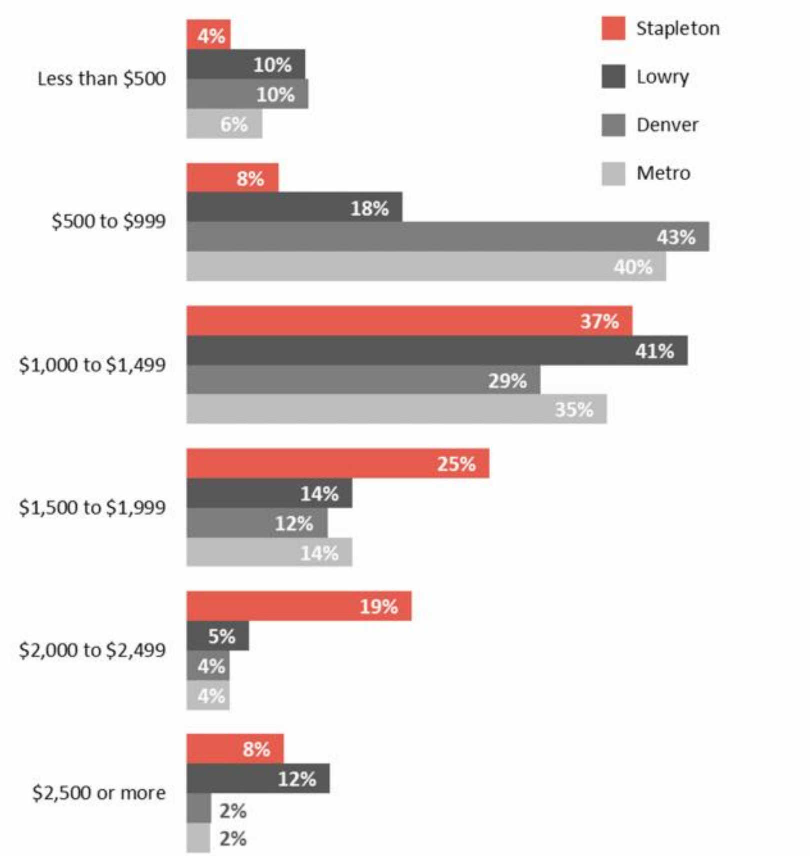
Rent distribution. Figure II-8 shows the distribution of gross rent paid, according to the most recent ACS data. These data reflect the average self-reported rent payments between 2011 and 2015 among all renters—not just apartments currently available for rent—and include the reduced rents paid by occupants of income-qualified affordable developments.

As illustrated by the Figure, Stapleton has a lower representation of rentals priced below $1,500 and a higher representation of units priced above $1,500 when compared to Lowry, Denver and the metro overall. Similar to home values, gross rent paid (including utilities) skews high in Stapleton.

Figure II-8.
Gross Rent Paid, 2015

Note:
Gross rents shown include utilities.

Source:
2011-2015 American Community Survey and BBC Research & Consulting.



Median rent (based on 2011-2015 ACS) is $1,550 in Stapleton, compared to $1,220 in Lowry, $960 in Denver and $1,050 in the Metro. Median rents in the Park Hill neighborhoods are

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5 Zillow rental data includes single-family rental properties along with multifamily apartment buildings.

between $900 and $1,100, with the highest rents located on the eastern side of Park Hill—closest to Stapleton. Similar to the above figure, these rents reflect the average self-reported rent payments between 2011 and 2015 among all renters, including income-qualified renters.

Rent growth. Figure II-8 displays rental trends in Stapleton, Denver and the metro based on Zillow median rental prices and Zillow median rent per square foot. Median rents in Stapleton increased by 24 percent between January 2014 and December 2016 (from $1,850 to $2,300) and hovered around 20 percent higher than the median rent in Denver over that period. However, rental price per square foot in Stapleton is actually lower than the city and comparable to the metro area overall.

Figure II-8.
Median Rent and Median Rent per Square Foot, 2010 through 2016

Source: Zillow data and BBC Research & Consulting.

Affordable rentals. According to data from Forest City, there are 1,609 multifamily rental units in Stapleton, 22 percent (362 units) of which are designated affordable to households earning less than 60 percent AMI (about $48,000 for a four-person household).

Those 362 affordable rental units are provided by five multifamily developments ranging in size from 18 to 100 units per development. Excluding 100 units designated for seniors, most affordable rentals are sized to accommodate families: 19 percent have three or more bedrooms and another 48 percent are two-bedroom units. The remaining quarter are one-bedrooms. About half of all affordable rentals in Stapleton are affordable to residents earning 50 percent of area median income (AMI).

Each affordable development includes a covenant restriction that determines the mix of affordability by income and the length of time the units are to remain affordable (typically 30 years from completion). Figure II-9 displays the number of units by level of affordability and when their affordability restriction is set to expire. Upon expiration, the City and County of Denver has first right of refusal to purchase the developments with intent to extend their affordability.

About half of Stapleton's affordable rentals are at risk of converting to market-rate by 2037.

Figure II-9.
Affordable Rentals in Stapleton by Affordability Expiration Year

	Focus Population	Level of Affordability			Total Affordable Units		Affordability Expiration Year
		30% AMI	50% AMI	60% AMI	Num.	Pct.	
Clyburn at Stapleton	seniors	0	2	98	100	28%	**2033**
Parkside Apts	families	17	34	17	68	19%	**2035**
Central Park Apts	families	3	12	3	18	5%	**2037**
Bluff Lake Apts	families	0	91	1	92	25%	**2042**
Northfield Stapleton Apts	families	0	21	63	84	23%	**2046**
Total		20	160	182	362	100%	

Note: Assumes a 30-year affordability contract.

Source: Forest City and BBC Research & Consulting.

For-sale market overview. In 2016, the median price of market-rate homes sold in Stapleton was about $508,000 (according to data from Forest City).[6] That includes both new construction and resales of both single family and attached homes. As shown in Figure II-10, median price of attached homes was $415,000, about $150,000 below the median for single family detached ($567,519). Median price per square foot was $258 for attached homes and $285 for detached homes.

Fifty-four affordable (income-qualified) homes were sold in Stapleton in 2016, with a median price of $182,546 and a median price per square foot of $174.

Figure II-10.
Sale Price of Stapleton Homes, 2016

Source:

Forest City and BBC Research & Consulting.

	Number Sold	Median Price	Median Price per Sq. Ft.
All market-rate homes	938	$507,512	$276
Attached	334	$415,000	$258
Detached	604	$567,519	$285
Affordable (all are attached)	54	$182,546	$174

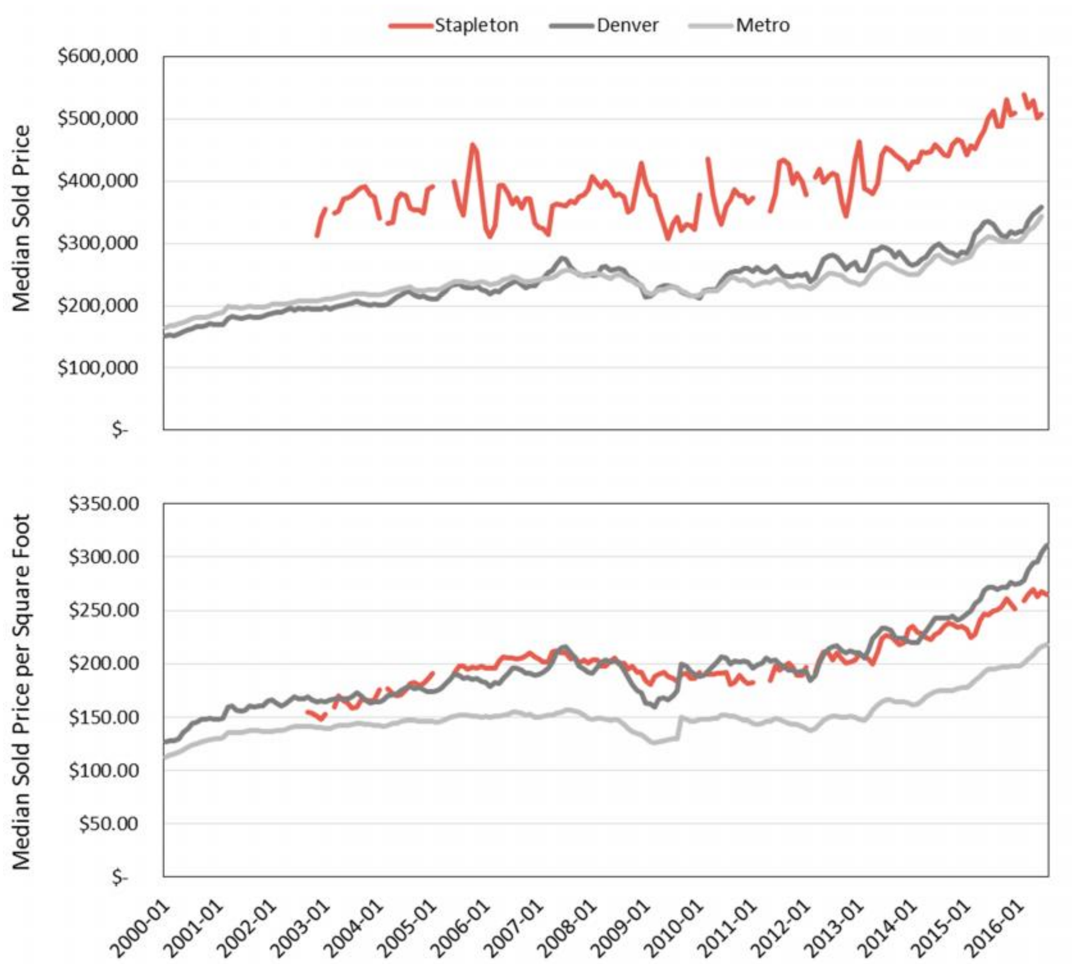
[6] In this section and throughout this report homes "sold" reflects closed sales.

Market trends. Figure II-11 uses Zillow data to compare long-term trends in Stapleton home prices relative to the city and metro area.

Over the period shown, Stapleton home prices have been about 60 percent higher on average than the city and metro area. The rate of price increases has been similar in Stapleton as the rest of the city and metro area over the past few years.

Similar to the rental market, price per square foot of for-sale homes tells a slightly different story: price per square foot in Stapleton is very similar to the city overall, though both are higher than in the metro as a whole.

Figure II-11.
Median Sale Price and Median Price per Square Foot, 2000 through 2016



Source: Zillow data and BBC Research & Consulting.

Sale price trends in both North and South Park Hill are similar to Stapleton, though North Park hill prices have remained below Stapleton and South Park Hill. Price per square foot is higher in North and South Park Hill than in Stapleton and has increased at a faster rate over the past few years—particularly in North Park Hill. According to Zillow, the average monthly medians for those neighborhoods in 2016 were:

- North Park Hill—$425,000 sale price and $374 per square foot;
- South Park Hill—$589,000 sale price and $411 per square foot; and
- Stapleton—$519,000 sale price and $265 per square foot.

South Park Hill has long been a desirable city neighborhood but price increases in North Park Hill are an indication of gentrification in the historically minority community. This gentrification may be fueled, in part, to the close proximity of Stapleton amenities and high home prices.

Home values. Median home value (according to the 2011-2015 ACS) in Stapleton is $439,000, compared to $446,000 in Lowry, $271,000 in Denver and $267,000 in the Metro. (It should be noted that reported home *values* are consistently lower than home *sale* prices). As shown in Figure I-3, homes valued below $300,000 are underrepresented in Stapleton and homes values over $300,000 are overrepresented, compared to Lowry, Denver and the metro.

About 7 percent of homes in Stapleton are valued below $200,000. Most, if not all, of these homes are likely income-restricted affordable for-sale homes (discussed more in the following section).

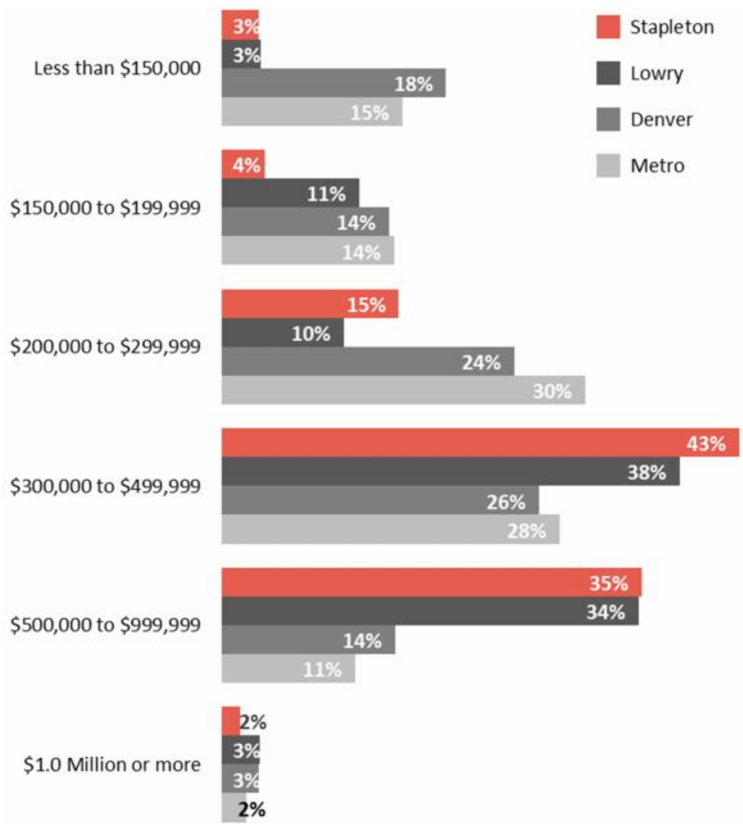
Figure II-12.
Home Values, 2015

Note:

Home values are self-reported in the ACS. They typically reflect lower dollar amounts than sale price distributions.

Source:

2011-2015 American Community Survey and BBC Research & Consulting.



Affordable homes. According to data from Forest City, 6 percent of new builds that closed in 2016 were income qualified—33 total homes. Another 21 affordable units turned over (were sold to new buyers). In 2016, the price difference in affordable attached and market rate attached in Stapleton was about $230,000 at the median. Price per square foot for affordable was $84 below market-rate attached at the median.

In total, 391 affordable for-sale homes have been sold or are currently under contract in Stapleton, about 8 percent of all for-sale homes. Just over one-quarter (28%) of those have three or more bedrooms (compared to 69% of all homes in Stapleton).

Based on the current agreement with the city, Stapleton's affordable homes have a 15 year deed restriction under which they can appreciate 3.5 percent annually. After 15 years, the home can be sold at market-rate, though the City has first right of refusal to purchase the home at the affordable appreciation price. Figure II-13 shows the number of affordable homes in Stapleton by number of bedrooms and expiration year.

Figure II-13.
Affordable For-Sale Homes in Stapleton.

Note:

Assumes all deed restricted ownership units have a 15-year affordability contract.

Source:

Forest City and BBC Research & Consulting.

Deed Restriction Expiration	Afforable Homes by Number of Bedrooms			Total Affordable Homes	
	1 BR	2 BR	3 BR	Num.	Pct.
2019	26	54	26	106	27%
2021	0	40	12	52	13%
2025	10	44	18	72	18%
2027	0	4	0	4	1%
2028	0	8	1	9	2%
2029	0	28	22	50	13%
2031	0	66	32	98	25%
Total	36	244	111	391	100%

Future Affordability of Stapleton

Based on current market prices, the Stapleton neighborhood remains out of reach for many potential renters and buyers and is likely to become even less accessible to households earning less than 100 percent AMI over the coming years. High sale prices in Stapleton along with the neighborhood's amenities may also be contributing to price increases in adjacent neighborhoods, which have historically maintained more affordability.

Figure II-14 shows the number and proportion of Stapleton homes affordable to households of different income levels based on 2016 sale data. The affordable home price shown assumes a 10 percent down payment and a 4.2 percent interest rate on a 30 year mortgage. The model also assumes that no more than 30 percent of income can be spent on housing costs and that 28 percent of monthly housing payment is used for property taxes, utilities and HOA fees. Income is shown as a percent of AMI since AMI thresholds are the benchmark for assisted housing qualification. AMI thresholds are shown for a two-person household and a four-person household.

In 2016, there were just four market-rate homes sold in the price range of a two-person household earning 100 percent of AMI (up to $64,100). About one-quarter of all rental units were in the same household's price range, with another 20 percent of rentals priced below that household's rent range.

A four-person household earning 100 percent AMI, or $96,120, could afford about two-thirds of the rental units in Stapleton (25% in their price range and another 42% below their range) but only 5 percent of market-rate homes for sale. None of the homes affordable to that household are single-family detached.

Figure II-14.
Stapleton Affordability by AMI

		Rental Market		Ownership Market			
Income by AMI and Household Size	Max Income Value	Max Affordable Rent	Pct of Market-Rate Rentals Affordable	Max Affordable Home Price	Num of Market-Rate Sales Affordable	Pct of Market-Rate Sales Affordable	Pct of affordable that are SF Detached
2-person household							
0-30% AMI	$19,250	$481	0%	$77,942	0	0%	n/a
31-50% AMI	$32,050	$801	0%	$129,768	0	0%	n/a
51-80% AMI	$51,300	$1,283	20%	$207,710	1	0%	0%
81-100% AMI	$64,100	$1,603	23%	$259,537	4	0%	0%
101-120% AMI	$76,920	$1,923	20%	$311,444	32	3%	0%
120-150% AMI	$96,150	$2,404	23%	$389,305	133	14%	8%
4-person household							
0-30% AMI	$24,300	$608	0%	$98,389	0	0%	n/a
31-50% AMI	$40,050	$1,001	1%	$162,160	0	0%	n/a
51-80% AMI	$64,080	$1,602	42%	$259,456	4	0%	0%
81-100% AMI	$80,100	$2,003	25%	$324,320	44	5%	0%
101-120% AMI	$96,120	$2,403	18%	$389,184	133	14%	8%
120-150% AMI	$120,150	$3,004	7%	$486,480	405	43%	35%

Note: HUD AMI for Denver is $80,100. Affordable home price shown assumes a 10% down payment and a 4.2% interest rate on a 30 year mortgage. The model also assumes that no more than 30 percent of income can be spent on housing costs and that 28 percent of monthly housing payment is used for property taxes, utilities and HOA fees.

Source: BBC Research & Consulting.

Over the past 15 years, home prices in Denver rose faster than incomes. If that trend continues, households earning 100 percent of AMI—or even 150 percent AMI—will soon be priced out of the market. Figure II-15 models affordability changes over the next 15 years, using trends from the past 15 years to forecast changes in income and home prices. The forecast focuses on Stapleton's ownership market, which has higher barriers to entry than the rental market. For the sake of simplicity, lending conditions are assumed to remain constant.

The forecast model is based on the following historical trends and conditions:

- HUD AMI for Denver increased by 24 percent between 2001 and 2016 (1.47% CAGR). BBC assumed the same increase in incomes through 2031.

- Median sale price from homes in the City and County of Denver increased by 91 percent between 2001 and 2016 (from about $196,000 to about $327,000). BBC used this increase to model a high growth scenario.

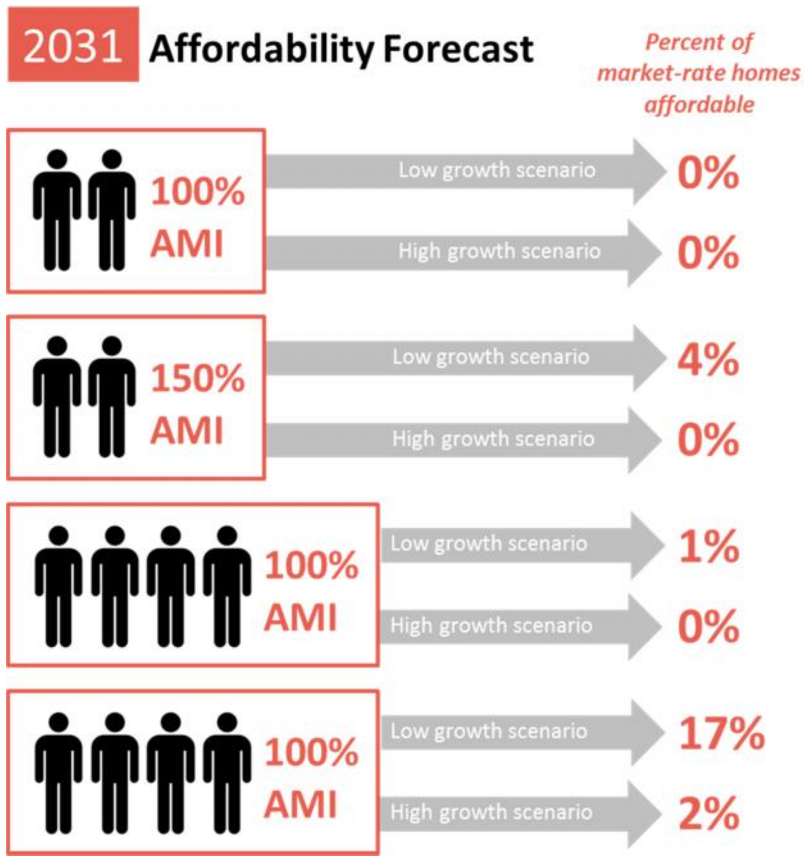
- The Case Shiller Home Price Index went from 121 in December of 2001 to 190 in December of 2016—a 57 percent increase. BBC used this increase to model a low growth scenario.

As demonstrated in the figure, by the year 2031, households earning 100 percent AMI will be virtually priced out of Stapleton: Under the high growth scenario, no homes are affordable and under the low growth scenario just 1 percent of homes would be affordable to a four-person 100 percent AMI household. No market-rate homes would be available to a two-person 100 percent AMI household under either growth scenario.

Even households earning 150 percent AMI would have very limited options by 2031 with only 2 percent of homes affordable under the high growth scenario and 17 percent affordable under the low growth scenario for a four-person household.

Figure II-15.
Affordability Forecast

Source:
BBC Research & Consulting.



This affordability model indicates that maintaining income diversity in Stapleton is likely to require preservation of expiring affordable units. As discussed previously, the deed-restricted ownership properties in Stapleton have a 15-year affordability life so any existing units will have expired by 2031 and the affordable properties currently under development will expire soon thereafter.

Stapleton's affordable rentals have a longer term of affordability (30 years), though about half of those are at risk of converting to market-rate by 2037.

SECTION III.

Intervention Strategies and Recommendations

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This section examines the strategies available to the Stapleton Foundation to maintain income diversity through affordable housing in both current and future markets. As part of this analysis, BBC conducted key person interviews to incorporate local context and institutional knowledge for specific market interventions and housing policy priorities city-wide. The section begins with a summary of top themes from the key person interviews and is followed by a discussion of specific market interventions.

Interview Summary

BBC conducted five key person interviews among Foundation Board members and the Denver affordable housing community including representatives from Northeast Denver Housing Center, Thrive Home Builders, Forest City, Trailbreak Partners and Colorado Community Land Trust. Discussions centered around perceptions of housing demand in both Stapleton and the Denver market overall, homeownership as well as rental needs in the community, and tools for creating and preserving affordability. Foundation Board members also provided thoughts on the role of the Foundation in maintaining relative affordability in the neighborhood.

Key themes from the interviews fell into three primary topics: renter versus owner focus, specific tools/strategies, and the Foundation's role.

Rental vs owner. All stakeholders interviewed identified affordability needs for both rental and ownership opportunities in Stapleton. However, most stakeholders felt there were already well-developed tools available to address rental affordability—including Colorado Housing Finance Authority (CHFA) , Division of Housing and Housing Authority programs, Low Income Housing Tax Credit (LIHTC) allocations and gap financing. A general theme among stakeholders was to avoid "reinventing the wheel" particularly in regard to affordable rental preservation.

Most stakeholders viewed affordable ownership preservation as a more challenging dilemma—yet a higher need and a better fit for the Foundation in the context of maintaining income diversity in Stapleton.

Tools and strategies. Stakeholders were asked to discuss their recommendations for preserving affordability in Stapleton and/or strategies that have been successful in peer communities or neighborhoods. The most common suggestions centered around acquisition of income restricted ownership units as they expire with intent to extend their affordability. A land trust model has been successful in Lowry (and other Denver neighborhoods) as a mechanism for permanent affordability. Stakeholders acknowledged the biggest challenge to this type of intervention is the need for substantial up-front capital for the acquisition; ongoing operations of this type of program are typically funded through land payments as program income.

Down payment assistance was also suggested as an option to help make market-rate products affordable to those who could qualify for the mortgage but may not have savings for the initial purchase.

Stakeholders were generally complimentary of existing resources for rental preservation including CHFA programs and the city's use of "preservation partners" to help prevent affordable developments with expiring covenants from turning market-rate.

Foundation role. Foundation Board members interviewed also discussed the potential role of the Foundation as it relates to affordability of the neighborhood. Some felt the objective should be to help Forest City meet its affordability goals faster than it would otherwise; some were more focused on long-term preservation of affordable housing. All Board members indicated a need for the Board to cast a vision for their role—to clearly define the community values around economic diversity and then consider targeted solutions. Board members expressed hesitation at moving too far from their intended scope (e.g., becoming a lender or housing developer) but acknowledged a desire to play some role in retaining affordability for Stapleton.

One stakeholder articulated that the process of retaining affordability for Stapleton is a "transition from *creating* the community to *sustaining* the community"

Intervention Strategies

Early discussions with the Foundation focused on consideration of a two-pronged approach to maintaining ownership affordability in the Stapleton neighborhood:

1. Development of a down payment assistance program for potential buyers earning 100 percent of AMI; and

2. A preservation strategy to extend the affordable life of existing deed restricted properties beyond the original 15 or 30 year term.

The Foundation was also interested in considering options related to rental affordability—either through preservation, rental subsidy or facilitating affordable rental development.

This section provides a brief description of potential strategies and costs, with a focus on those presented by the Foundation and/or recommended through stakeholder interviews. It also includes tools generally considered to be Best Practice options for the preservation of affordable housing.

Existing housing unit purchase programs. This program became more frequently used following the foreclosure crises, as a result of the availability of Neighborhood Stabilization Program (NSP) funds. Public or Foundation funds are used to purchase existing housing units by the city or a nonprofit organization for resale or for rental to low- or moderate-income persons. If in disrepair, these units will also need to be rehabilitated (also known as "acquisition rehab.") As an exchange for the affordable price of the unit, a deed restriction is placed on the unit in order to insure long-term affordability. The unit is resold at a discounted price to a low-income or moderate-income buyer. The tool includes an option to limit the size of future additions as well.

This program could be applied to Stapleton and the extended, surrounding environment (North Park Hill, East Montclair and East Colfax), perhaps in conjunction with a broader East Denver or City initiative to sustain affordability in the broader neighborhood market area. These broader market neighborhoods are likely to be vulnerable to continued gentrification and loss of affordable housing as the community amenities around them are improved (e.g., Rapid Transit along Colfax, strengthening of Denver Public Schools).

The downside of this program is the high per unit cost. As illustrated below, the subsidy required to convert a Stapleton median-priced home to an affordable rental or ownership option for a four-person 100 percent AMI household is $1,129 per month, or $183,192 total.

	Home Price	Monthly Pmt
Median market price..................	$507,512	$3,132
4-person 100% AMI can afford...	- $324,320	- $2,003
Subsidy required......................	$183,192	$1,129

Down payment assistance. Down payment assistance programs help reduce the out-of-pocket costs of purchasing a home by offering low cost down payment loans or down payment grants to qualified buyers. Down payment assistance can be structured in a variety of ways and/or paired with assistance from other programs. A handful of down payment assistance programs are available to Denver buyers, including programs offered through CHFA, Colorado Division of Housing and the City and County of Denver. In order to prevent duplication of existing options, the Stapleton Foundation could consider a program that functions as a soft second loan (0% financing that amortizes the longer the household stays in the home or is forgiven if the owner sells at an affordable price) paired with down payment assistance from other sources.

This tool requires that affordable properties be available for purchase and may be less effective for relatively lower incomes and/or as prices increase and units affordable to eligible households become more scarce. Program participants still need to qualify for a mortgage on market-rate home prices and must have sufficient income to make monthly payments. A well-structured program is likely to reduce barriers to entry—particularly for first-time buyers and lower *wealth* buyers—but is not likely to have meaningful impact on the *income* diversity of the neighborhood.

Compared to an acquisition/rehab program, down payment assistance helps a larger number of households, but the per-household impact is much lower.

Most DPA programs provide a grant that is 3% to 4% of the purchase price:

- **For a median priced Stapleton home = $15,000 to $20,000**
  (note: median is affordable to incomes of $125,000 per year)
- **For a home priced to a four-person 100% AMI = $10,000 to $13,000**
  (note: 100% AMI 4-person household earns about $80,000 per year)

Land trust. A Community Land Trust (CLT) is a type of non-profit housing organization that intends to maintain ownership of the land in perpetuity. Following construction (or acquisition), the land is leased to the residents who own homes on the leased land; their ownership is subject to restrictions on use and resale that keep the units permanently affordable.

The land trust model has been used very successfully used locally in Lowry and by Boulder's Thistle Communities. In Denver's Lowry neighborhood, the land trust model was applied to both existing units that were rehabilitated and sold under a land trust model, as well as to create newly built units. Land Trust units are currently part of the last parcel of development of Lowry, Boulevard One. Santa Fe has used the land trust model to create the county's largest master-planned affordable land trust community, Tierra Contenta (TC). The city obtained the land for TC from the local electric utility company during the Savings & Loan crisis.

Similar to existing housing unit purchase programs, the initial investment requires capital equivalent to the home purchase price. However, the Foundation may be able to leverage other funding sources—perhaps through the City—in order to extend the affordable life of units developed under the Stapleton Affordable Housing Plan. Ongoing management of land trust programs can be funded through program income derived from land lease payments.

The costs shown below quantify the implied subsidy through the difference in attached market rate and attached affordable properties sold in Stapleton in 2016. In order to remain viable, deed restricted affordable units must remain well-below market prices. Colorado Community Land Trust, for example, tries to keep their products about 60 percent below market.

	Sold Price	Price / SqFt
Market-rate attached homes sold in 2016....	$415,000	$258
Affordable attached homes sold in 2016......	- $183,000	- $174
Price difference....................................	$232,455	$84

Broadened land banking. Land banking is a program whereby land is acquired by a division of government or nonprofit with the purpose of developing affordable/workforce housing or engaging in revitalization activities. After a holding period, the land is sold to a nonprofit or private developer, often at a price lower than market, who agrees to the land use conditions (e.g., creation of affordable/workforce housing). The land that current affordable multifamily and attached units were built on in Stapleton were a version of "land banking" by Forest City.

In this case, land banking could be broadened to the greater neighborhood to preserve affordability and make use of vacant and underutilized properties for affordable and mixed-income and mixed-use developments.

The costs and benefits of land banking can vary widely depending on the location, size and type of acquisition as well as the intended development use.

Recommendations

BBC offers the following recommendations for the Stapleton Foundation's consideration based on the preceding analysis of market conditions, stakeholder viewpoints and possible interventions:

- **Initiate a strategic planning process to articulate the Foundation's role.** A key challenge to taking meaningful actions to improve or maintain income diversity is a lack of consensus and direction at the Board level. A visioning or strategic planning session may be appropriate to identify the Foundation's role in creating/preserving affordability. This is particularly important as the Board crafts the Foundation's identity and core objectives moving beyond build-out into a post-Forest City future.

- **Engage in other, metrowide efforts to preserve and create affordable housing.** The City of Westminster, City of Denver and Boulder County are all in the process of developing strategic goals for preserving and creating affordable housing. One outcome of these efforts may be a more coordinated, metrowide effort to create affordable housing resources—e.g., proposing a legislative change to limitations on the Real Estate Transfer Tax (RETT). A minimal change in the tax in Boulder County—.2%—would generate $10 million to invest in affordable housing. Because this tax is imposed on property sellers, it has a strong nexus to sustaining affordability.

- **Work to preserve affordable owner-occupied properties as they expire using a land trust model.** As affordable covenants on ownership units expire, the City and County of Denver has the first right of refusal to purchase. However, the city is under no obligation to purchase the properties and may not have the resources on hand to do so at any given time. BBC recommends the Foundation closely track units nearing expiration, work with the city to coordinate preservation efforts and step-in when necessary to acquire the units with intent to retain affordability. The most effective long term strategy is to acquire and then convert the properties to a land trust (possibly through an existing land trust such as Colorado Community Land Trust), which would manage the program. After the initial capital investment for acquisition, the program could be designed for financial self-sufficiency funded by land lease payments from owners.

- **Consider maintaining a flexible capital pool to acquire existing housing units or vacant/underutilized parcels under favorable market conditions.** One of the most challenging but also effective strategies in creating and preserving affordable housing is strategic acquisition during low market periods. This recommendation requires a great deal of flexibility as success is dependent upon the ability to respond quickly to changing market conditions. If the Foundation is able to maintain a pool of resources earmarked for property acquisition either in a down market or in the case of foreclosures, it could expand the overall affordable inventory in Stapleton through acquisition and conversion to affordable. By setting certain market standards or price points that trigger using the funds, the Foundation would be able to minimize the subsidy necessary to convert a market-rate unit to an affordable unit. Acquired units could be sold or rented to income qualified residents.

- **Encourage continued development of affordable rental housing.** Forest City is working to meet its obligation to the City for 20 percent of all rental units developed in the neighborhood to be set aside for renters earning less than 60 percent AMI. Even so, it remains important for the Foundation to continue to be an advocate for meeting the obligation as the neighborhood nears buildout.