



**CITY OF BOULDER  
CITY COUNCIL AGENDA ITEM**

**MEETING DATE: May 3, 2016**

**AGENDA TITLE:** Consideration of a motion to create a Middle Income Housing Strategy Working Group.

**PRESENTERS**

Jane S. Brautigam, City Manager  
David Driskell, Executive Director of Planning, Housing + Sustainability  
Susan Richstone, Deputy Director for Planning  
Kurt Firnhaber, Deputy Director for Housing  
Jeff Yegian, Housing Planning and Policy Manager  
Jay Sugnet, Project Manager, Housing Boulder  
Crystal Launder, Housing Planner

**EXECUTIVE SUMMARY**

The purpose of the motion is to provide a clear structure, process and scope for a working group comprised of City Council and Planning Board members to work with staff on developing a draft Middle Income Housing Strategy (MIHS) as a new component within Boulder's Comprehensive Housing Strategy. The strategy is expected to provide a housing policy framework, including community priorities for action and specific tools to help meet the adopted Housing Boulder goal to "Maintain the Middle."



At Council's Feb. 23 and Mar. 29, 2016 study sessions, staff and consultants presented the Middle Income Housing Study prepared by BBC Research and Consulting and proposed areas of focus and a range of potential interventions to address the loss of middle income households in Boulder. This memo proposes a process, structure and scope to move forward with a middle income housing working group comprised of members from City Council and Planning Board. The working group will work with staff to develop an overall Middle Income Housing Strategy, identifying short-, medium-, and long-term actions to address the loss of middle income households in Boulder.

This memo includes a discussion of other issues that were raised at the Feb. and Mar. study sessions, including the demolition of single family homes and accessory dwelling units. Finally,

the areas of focus for a middle income strategy proposed by staff were modified based on Council input at the study sessions, see **Attachment A**.

## **STAFF RECOMMENDATION**

### **Suggested Motion Language:**

Staff recommends Council consideration of this action in the form of the following motion:

Motion to create a working group comprised of three City Council members and two Planning Board members for the purpose of working with staff to develop a draft Middle Income Housing Strategy, as defined in the process and scope proposal in sections II. and III. of the staff memo.

## **I. PROGRESS ON HOUSING ISSUES**

Progress is being made on the Housing Boulder Action Plan approved by Council in September 2015 and affirmed at the Council's annual retreat in January 2016. The following items are either completed or have achieved significant milestones:

- Short term rentals – Council adopted changes to the regulations and implementation via a new Short Term Rental License program is underway;
- Linkage Fee Study – Initial analyses have been completed; a working group has been meeting; Council held a study session in April 2016; study session scheduled in June to discuss options for fee changes; fees will be updated as part of 2017 budget process;
- Palo Park Family Housing – Successfully annexed, completed Concept Review, and currently in for Site Review;
- Cooperative Housing – Planning Board hearing was held April 21; Council second reading on May 3;
- One to One Replacement Ordinance – Staff is drafting a proposal for Council consideration this summer;
- Ponderosa Mobile Home Park – Staff continues to work with the owner and the city's partner organizations to explore options for accomplishing community goals;
- City-owned Site at 30<sup>th</sup> and Pearl – A consultant has been retained to conduct analysis of development alternatives for the site; results will be presented to Council in at a study session on August 31;
- Comprehensive Plan – A consultant team has been engaged and work is underway to develop and analyze alternative land use scenarios, including analysis of alternative residential mixes and housing prototypes; work will be closely coordinated with the Middle Income Housing Strategy process; housing prototypes will be tested against existing regulations to identify potential barriers.

## II. WORKING GROUP PROCESS PROPOSAL

### Problem Statement:

*The share of middle income households in Boulder has declined 6 percent since 1989. The inventory of homes affordable to middle income households (earning between 80-150 percent area median income) has decreased over the past 15 years. Without intervention, middle income housing opportunities in Boulder will continue to erode.*

### Purpose:

The working group will work with staff to develop a draft Middle Income Housing Strategy as a new component within the city's Comprehensive Housing Strategy. The draft strategy will define metrics of success and identify short-, medium-, and long-term actions to address the loss of middle income households in Boulder.

### Working Group Composition:

- 3 members of City Council
- 2 members of Planning Board

At a regular meeting, City Council and Planning Board will each vote to select representatives to the working group. Members from other city advisory boards may be invited to join the conversation depending on the topic discussed.

### Meeting Frequency and Duration:

The group will meet 2 - 3 times per month at a time and day to be determined by a poll of members, starting in late May and ending in October. The meeting duration will be 1.5 - 2 hours.

### Decision Making:

The working group is not a decision making body. The role of the group is to work with staff to understand the issues, identify potential interventions and evaluate those interventions for consideration by the full Planning Board and City Council. The working group's discussion will inform development of a draft Middle Income Housing Strategy for consideration and potential adoption by the full Planning Board and City Council.

## III. WORKING GROUP SCOPE OF WORK

In an effort to create a manageable scope of work for the group, staff proposes the following three topics for discussion. Additional topics that were raised at the Middle Income study sessions are discussed in Section IV, along with a discussion of the implications of expanding the scope beyond this proposal.

1. Modify the Current Goal for Middle Income Housing
2. Identify Funding Options for Middle Income Housing
3. Define and Adopt Community Benefit Policies and Tools to Preserve and Create Middle Income Housing

## 1. Modify the Current Goal

**What is the Problem?** The current goal of 450 permanently affordable middle income housing units is not sufficient to address the loss of middle income households in Boulder.

### Potential Interventions

- A. Adopt a more ambitious goal for middle income housing. Options include tying the goal to a percentage of the overall housing stock or the percentage of middle income households in Boulder.
- B. Define metrics of success for maintaining and expanding opportunities and choices for middle income households, including both permanently affordable options and market-rate options.

## 2. Identify Funding Options

**What is the Problem?** Currently, the only mechanism for acquiring permanently affordable middle income housing is through annexation. In addition, investing in middle income housing is currently not an eligible use of the city's affordable housing funds. Therefore, additional funding may be necessary to address the challenge while maintaining the current commitment to housing for low and moderate income households.

### Potential Interventions

- A. Explore investing public funds in creating and preserving middle income housing options.
- B. Expand the current affordable housing linkage fee on nonresidential development to address middle income housing needs (currently being explored as part of the Development Fee Studies).
- C. Create a new tax, or raise existing taxes, to fund middle income housing units (e.g., occupational tax, hotel/accommodations tax, general sales tax, and property tax).

One option for using additional funding sources is to create a down-payment assistance program for middle income households. In exchange for the subsidy, the homeowner would agree to 1) a deed restriction to maintain permanent affordability to middle income households, 2) share the home's appreciation through repaying a loan that would revolve, or 3) a combination of both.

## 3. Define and Adopt Community Benefit Policies and Tools

**What is the Problem?** There is a perception that new development is not providing sufficient community benefit. Many Council members have expressed concerns that the city's current policies and codes are driving larger and more expensive units that are not affordable to middle income households.

### Potential Interventions

- A. Adopt policies requiring a higher level of community benefit for annexations. For example, require specific housing types that would be affordable to middle income

households (attached, smaller in size, access to a yard, etc.) for both market and permanently affordable units.

- B. Adopt policies providing guidance for community benefit for an increase in development potential through land use or zoning changes. Amend regulations to require additional affordable housing for any rezoning that increases development potential.
- C. Explore options to amend the current Inclusionary Housing (IH) regulations including: requiring or incentivizing on-site units, increasing IH requirements, adding a potential middle income housing requirement.
- D. Identify barriers to smaller units and/or incentives for larger units and consider related regulatory and other changes.

### III. OTHER ISSUES RAISED

#### A. Single-Family Home Demolitions and Large Homes

Modest homes throughout Boulder are being demolished and replaced with significantly larger homes. Several City Council members described the issue as a crisis and characterized it as one factor causing Boulder to “lose its soul.” Staff prepared an analysis (see **Attachment B**) of single-family demolition and new construction permits issued from 2005 to March 31, 2016.

Below are some highlights:

- Scale of Issue. During the eleven-year period from 2005 to 2015, 270 demolition permits were issued for single-family homes that would be replaced by new single-family homes. This represents 1.4 percent of single-family detached homes in the city.
- Trend. Since 2005, it appears that single-family demolition permit issuance in Boulder may be leveling off around 30 permits annually.
- Size of New Homes. The average finished floor area of the demolished homes was 2,141 square feet. The new homes that replaced older homes averaged 4,132 square feet, with an average gain of 2,204 square feet.
- Affordability. Sixteen demolitions and rebuilds were matched with pre and post demolition sales data, a sample size too small for absolute conclusions. Of these, six were affordable to some segment of middle income households prior to demolition permit issuance and two were middle income affordable after the demolition permit was issued.
- Location. Nearly three quarters of demolition/rebuild activity was focused in Central Boulder and 15 percent in North Boulder. The zones with the greatest concentration of demolition/rebuilds are the RL-1 zone (71 percent) and the rural residential zones (RR-1, RR-2, and RE) with a combined 20 percent of the demolition/rebuilds.

#### Potential Interventions

- A. Institute a temporary maximum square footage for all new homes and remodels.
- B. Prohibit all demolitions.
- C. Analyze drivers in current regulations that encourage new homes to be large (in progress through BVCP).
- D. Identify and evaluate interventions/incentives to prevent the demolition of modest homes – allow subdivisions, allow ADUs/OAUs, prohibit scrapes permanently, permanently cap square footage.

### **Work Plan Implications**

The last time Council addressed this issue was in 2009 as part of the Compatible Development Project. The effort took more than a year and a half and involved an extensive community discussion. Based on past experience, addressing this issue in the near-term would require significant tradeoffs such as postponing work on a Middle Income Housing Strategy.

### **B. Accessory Dwelling Units / Owner Accessory Units**

Council members have repeatedly requested action on making ADUs and OAU's easier to permit and build. Staff proposes that once the Co-operative Housing project is complete, staff from Planning, Housing and Sustainability will work with the City Attorney to address ADUs and OAU's. If Council agrees with this approach, it would not entail a full overhaul of the regulations. The legislative approach is more appropriate for minor modifications to the requirements. If this approach is supported, staff will schedule a study session with Council focused on ADUs and OAU's following adoption of changes to the Co-op Housing Ordinance as a first step in the legislative process.

## **IV. NEXT STEPS**

Assuming Council passes the motion to form the working group, the Housing Boulder Process Committee will suspend meetings while the Middle Income Housing Strategy working group deliberates. All community engagement efforts for Housing Boulder will be coordinated with the Boulder Valley Comprehensive Plan and guided by the BVCP Process Committee. Several of the Housing Boulder action items will continue to utilize separate public engagement processes (e.g., Palo Park, 30<sup>th</sup> and Pearl, Cooperative Housing). Upon completion of the BVCP process, staff will return to Council to discuss completion of the full Comprehensive Housing Strategy.

For more information, please contact Jay Sugnet at [sugnetj@bouldercolorado.gov](mailto:sugnetj@bouldercolorado.gov), (303) 441-4057, or [www.HousingBoulder.net](http://www.HousingBoulder.net).

### **ATTACHMENTS**

- A. Refined Areas of Focus
- B. Single-Family Demolitions and Large Homes

## **Refined areas of focus for a Middle Income Housing Strategy**

### **1: Focus on homeownership opportunities for middle income households.**

Because market-rate rentals are largely middle income affordable, the city should explore and adopt tools that support provision of for sale housing that is affordable to middle income homebuyers. It will be important to monitor this trend into the future and if rental affordability becomes an issue, as it has in other high housing cost communities, it will warrant a future update to the Middle Income Housing Strategy.

Although rentals are affordable, the 2013 Housing Choice Survey illustrates that many rentals do not meet people's preferences. In particular, seniors and families with children may be able to afford rentals in Boulder but are choosing to live in surrounding communities in housing that meets their preferences (e.g., outdoor space, larger units).

### **2: Focus on attached housing types for new development.**

The *Middle Income Housing Study* found that only 17 percent of detached homes for sale in 2015 were affordable to middle income households. The median detached home sales price in 2015 was \$750,000 while the median sales price for attached homes was \$305,500. The total costs, driven by land costs, of building detached products, even very small units, make it unlikely that detached products could fill the middle income housing need without very high levels of per-unit subsidy. The study also found that attached homes retain affordability better than detached homes. This is due to several factors: attached homes tend to be smaller; they are more difficult to expand over time through additions; and the land value—which is the primary driver of price appreciation—is distributed over multiple units or restricted in size. This suggests that Boulder should support the provision of a greater variety of attached housing that appeals to middle income households (e.g., townhomes or courtyard cottages with access to a small yard).

### **3: Focus on the preservation of existing middle income housing where cost effective.**

The *Middle Income Housing Study* shows that a significant percentage of the city's middle income households today live in single-family detached housing throughout the city. As these homes turn over at current market prices, they will be replaced with higher income households. To “maintain the middle,” it is essential to look at ways to preserve the affordability of the existing housing stock.

## Large Homes and Scrapes

During the Middle Income Housing Study City Council Study Session held on March 29, several council members identified the phenomenon of large single-family homes replacing older, smaller homes as an urgent concern. To better understand the scope and nature of the issue, city staff reviewed single-family demolition and related new construction permits issued since 2005.

### Highlights

- Scale of Issue. During the eleven-year period from 2005 to 2015, 270 demolition permits were issued for single-family homes that would be replaced by new single-family homes. This represents 1.4 percent of single-family detached homes in the city.
- Trend. Since 2005, it appears that single-family demolition permit issuance in Boulder may be leveling off around 30 permits annually.
- Size of New Homes. The average finished floor area of the demolished homes was 2,141 square feet. The new homes that replaced older homes averaged 4,132 square feet, with an average gain of 2,204 square feet.
- Affordability. Sixteen demolitions and rebuilds were matched with pre and post demolition sales data, a sample size too small for absolute conclusions. Of these, six were affordable to some segment of middle income households prior to demolition permit issuance and two were middle income affordable after the demolition permit was issued.
- Location. Nearly three quarters of demolition/rebuild activity was focused in Central Boulder and 15 percent in North Boulder. The zones with the greatest concentration of demolition/rebuilds are the RL-1 zone (71 percent) and the rural residential zones (RR-1, RR-2, and RE) with a combined 20 percent of the demolition/rebuilds.

### Methodology

On March 31, city staff provided Daily Camera reporter Erica Meltzer with requested demolition and new construction permit data from 2010 to present. These data informed the April 9, 2016 article [As 'monster' homes rise, should Boulder trade size for density?](#)

City staff began analysis related to this issue using this same data set. In order to focus on demolitions and new construction activity that represents scrape and rebuilds, city staff reviewed the list of residential demolition permits provided and eliminated the following from analysis:

- Demolition permits issued for accessory structures only (e.g., garage, sheds);
- Demolition permits issued for multifamily structures;
- Nonstructural interior demolition permits, which don't change the exterior of the building;
- Demolitions permits that resulted from the 2013 flood event and other disaster events (e.g., house fires);
- Demolition permits with "null and void", "denied" and "withdrawn" statuses;
- Demolition permits issued for properties owned by nonprofit housing developers such as the housing authority (Boulder Housing Partners); and

- Demolition permits issued for mobile homes.

The demolition permits that remained were then matched with new construction permits. The demolition permits were then further culled to exclude:

- Single-family demolition permits that led to multi-unit residential and nonresidential projects such as Northfield Village and the city-purchased Boulder Community Hospital land; and
- Any instances where the demolition of one single-family home led to the construction of more than one home, because the economics of such activity differs.

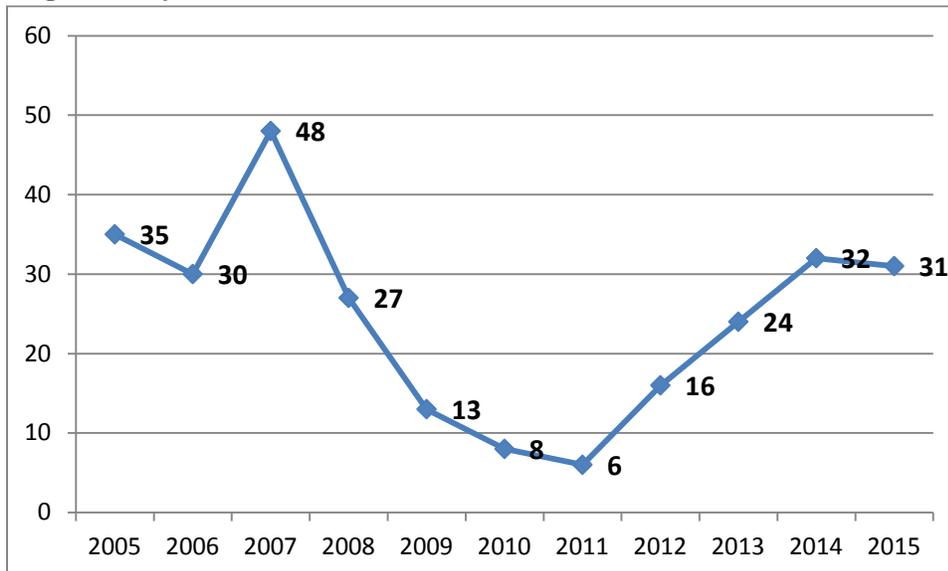
Using the data provided for use in the Daily Camera article, city staff initially found a trend of increasing permit activity between 2010 and 2016. Speculating that the economic recession could have influenced this trend, staff analyzed additional demolition permit data, going back to 2005. Below is the analysis for all years from 2005.

### Analysis

#### *Single-Family Full Structure Demolition Permits Pulled*

To understand the scale of demolition of older single-family homes replaced by new single-family homes in Boulder, staff calculated annual single-family demolition and new construction permits issued beginning in 2005. The graph below represents the annual number of single-family homes demolished and replaced or slated to be replaced by new single-family homes.

#### **Single-Family Detached Full Demolition Permits, 2005-2015**



Findings:

- Between 2005 and 2015, 270 single-family homes in Boulder were demolished and replaced or slated to be replaced by new single-family homes. This represents .5 percent of the 52,000 housing units in Boulder and 1.4 percent of single-family homes in the city.
- Annually, an average of 25 single-family homes were demolished that were later replaced by new single-family homes.
- During the 11-year period examined, 2007, the last full year prior to the national recession, was the high point for issuance of these demolition permits with 48 issued. The fewest, six, were issued in 2011, during the recession.
- Based on 2014 and 2015 single-family demolition permit issuance, activity of this kind may be leveling off just above 30 permits annually.

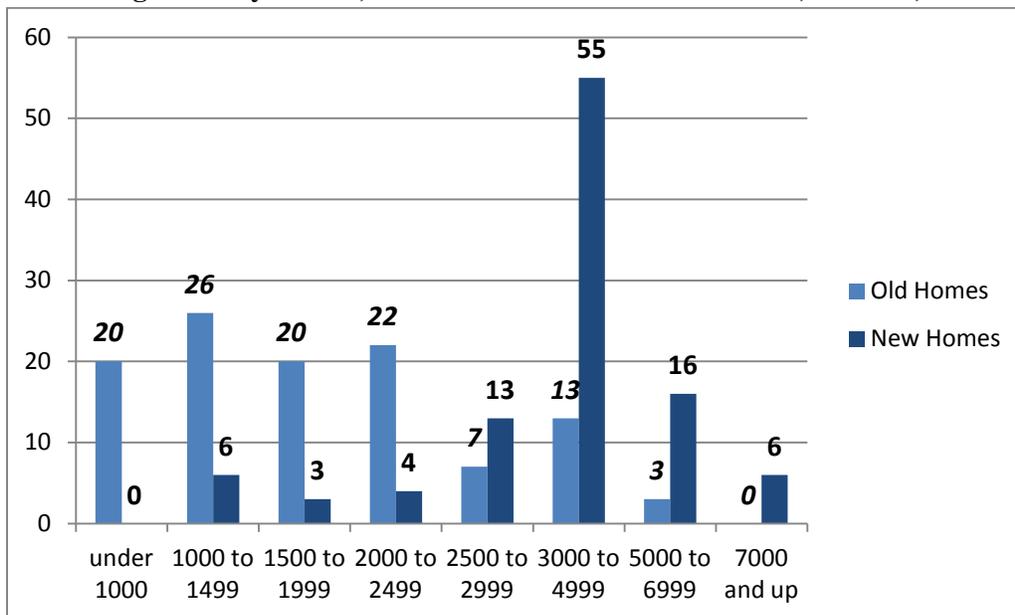
*Size of Homes*

One of the primary concerns raised by council members in the March 29 study session was the size of homes that have replaced older homes. Staff examined the finished floor area of single-family homes on lots for which demolition and new construction permits were issued between 2010 and 2016, the same time period examined in the April 9, 2016 Daily Camera article. (Due to time constraints, the full dataset extending back to 2005 was not used.)

*Demolished and New Homes*

This graph shows the size of the homes that were demolished and those that have replaced or will replace them.

**Size of Single-Family Homes, Demolition and New Construction, Boulder, 2010 to 2016**



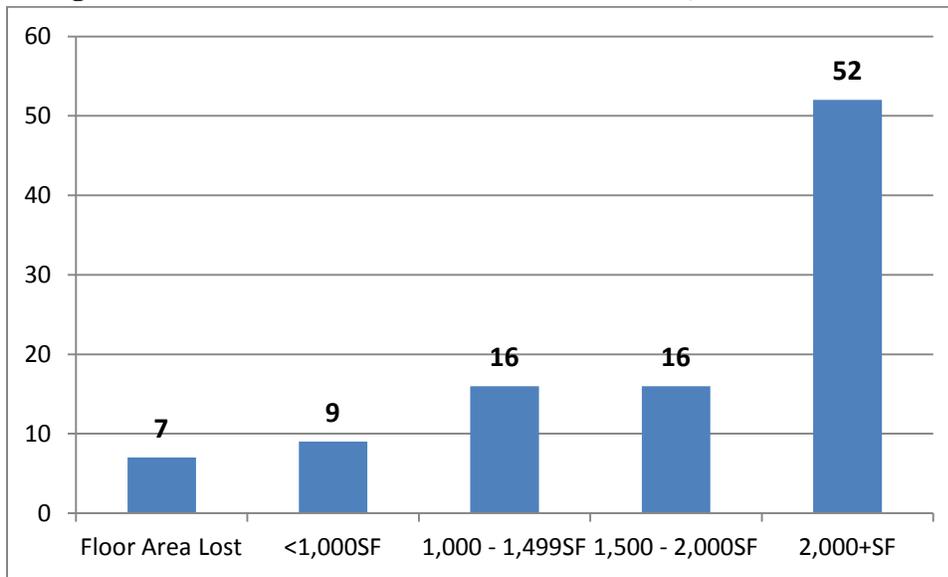
Findings:

- The average size of older homes for which demolition permits were issued was 2,141 square feet and the average size of homes that replaced them was 4,132 square feet.
- Older homes were generally smaller than newer homes, with older home sizes relatively evenly dispersed between the bottom four size categories shown in the graph and most newer homes falling into the 3,000 to 4,999 size category.

*Gain in Home Size*

For demolition and new construction permits issued between 2010 and March 2016, change in finished floor area from demolition permit to new construction is shown below.

**Change in Finished Floor Area from Old to New Home, 2010 to 2016**



Findings:

Of the 100 homes for which demolished and new construction finished floor area was identified, most gained over 2,000 square feet of floor area relative to the homes they replaced, with a 2,204 square feet average gain in finished floor area.

***Home Sales Value: Before and After Demolition and Replacement***

The loss of affordability of homes that are demolished and replaced by new, often larger homes was cited by council members as a primary reason for concern. Staff worked with BBC Research and Consulting to prepare some analysis of price gains and affordability of demolition/new construction activity.

Using the list of demolished and rebuilt homes identified by city staff and the 2011 to 2015 Multiple Listing Service data used by BBC in the Middle Income Housing Study, BBC was able to identify 16 single-family homes sold before and after a demolition permit was issued, a sample too small to be

conclusive. With that said, six of the 16 homes were affordable to middle income households prior to the issuance of the demolition permit and two homes were affordable to middle income households after the demolition permit was issued.

***Location of Single-Family Demolition and New Construction Activity***

To better understand where single-family demolition and new construction activity is occurring, staff explored the location of matching single-family demolition and new construction permits first by subcommunity, then by zoning district.

*Subcommunities*

For planning purposes, Boulder is divided into nine subcommunities. This table shows the distribution of matched single-family demolition and new construction permits by subcommunity.

**Single-family Demolition and New Construction Permits by Subcommunity, 2005 to 2016**

Subcommunity	Permits Issued	
	Count	Share
Central Boulder	203	74%
Crossroads	1	0%
North Boulder	42	15%
South Boulder	20	7%
Southeast Boulder	7	3%
<b>Total</b>	<b>273</b>	

Findings:

- Since 2005, nearly three quarters of single-family demolition/rebuild activity occurred in Central Boulder.
- The only other subcommunity which has experienced significant single-family demolition/rebuild activity was the North Boulder subcommunity.

*Zoning Districts*

This table shows single-family new construction permits by zoning district

**Single-family Demolition and New Construction Permits by Zoning District, 2010 to 2016**

Zoning District	New Construction Permits	
	Count	Share
Residential - Rural 1 (RR-1)	17	6.2%
Residential - Rural 2 (RR-2)	13	4.8%
Residential Estate (RE)	25	9.2%
Residential Low-1 (RL-1)	194	71.1%
Residential Low-2 (RL-2)	8	2.9%
Residential Medium - 1 (RM-1)	1	0.4%
Residential Medium - 2 (RM-2)	2	0.7%
Residential Mixed Use-1 (RMX-1)	11	4.0%
Residential High - 2 (RH-2)	1	0.4%
Residential High - 5 (RH-5)	1	0.4%
<b>Total</b>	<b>273</b>	

Findings:

- Demolitions and replacement of single-family homes is most heavily concentrated in the RL-1 zone, with 71 percent of all single-family scrape and rebuild activity having occurred in this zone.
- The more rural zoning districts – RR-1, RR-2, RE – account for about 20 percent demolitions and replacements.