



**CITY OF BOULDER
CITY COUNCIL AGENDA ITEM**

MEETING DATE: May 3, 2016

AGENDA TITLE: Consideration of a motion to accept the February 23 and March 29, 2016 Study Session summaries on developing a middle income housing strategy.

PRESENTERS

Jane S. Brautigam, City Manager

David Driskell, Executive Director of Planning, Housing + Sustainability

Susan Richstone, Deputy Director for Planning

Jeff Yegian, Housing Planning and Policy Manager

Jay Sugnet, Project Manager, Housing Boulder

SUMMARY

This agenda item provides a summary of the February 23 and March 29, 2016 Study Sessions on developing a middle income housing strategy.



The purpose of the study sessions was to request council feedback on the following:

- The recently completed *Middle Income Housing Study* undertaken to better understand how the market is currently performing in relation to housing products and choices for middle income households in Boulder;
- Current trends and projections for new housing development under current land use and zoning, from now through “build out” (i.e., what we will likely get under current policies, regulations and market trends) and summarize relevant input from the recently completed community survey;
- Draft “areas of focus” of the strategy;
- Potential interventions based on consultant input, working group discussions, and a review of middle income housing approaches from other cities; and
- Next steps toward developing a Middle Income Housing Strategy for Boulder, including the coordination of analysis, community engagement and policy direction with the Boulder Valley Comprehensive Plan.

STAFF RECOMMENDATION

Suggested Motion Language:

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

Motion to accept the February 23 and March 29, 2016 Study Session summaries on developing a middle income housing strategy.

February 23, 2016 Study Session Summary on Developing a Middle Income Housing Strategy

PRESENT

City Council: Matt Appelbaum, Aaron Brockett, Suzanne Jones, Lisa Morzel, Andrew Shoemaker, Bob Yates and Mary Young

Staff members: City Manager Jane S. Brautigam, Deputy Director for Planning Susan Richstone, Housing Planning and Policy Manager Jeff Yegian and Senior Planner Jay Sugnet

OVERVIEW

Susan Richstone introduced the agenda item and explained that Council will hear a brief presentation from the project consultants and then ask questions and discuss the results. Ms. Richstone introduced Heidi Aggeler and Mollie Fitzpatrick from BBC Research & Consulting. Ms. Aggeler provided an overview of the Middle Income Housing Study executive summary and described how this work builds upon previous work done by BBC (Housing Market Analysis and Housing Choice Survey) completed in recent years.

Following is a summary of questions raised during the session and responses provided:

- *Concern was expressed that students tend to skew data on income distribution.* The share of low income households is probably exaggerated as a result of student households; Boulder does not have a “normal” or bell-shaped distribution of income categories. Without student households the share of other income categories (i.e., middle and high) would be higher and Boulder would likely be more similar to Boulder County in terms of the relative shares of low, middle and high income households. It was noted that the absolute share is less important than the change in income distribution over time.
- *How was the socioeconomic data collected?* Ms. Aggeler responded that three year rolling American Community Survey data (2011-2013) was used for income data, but that 2015 MLS data was used for home sales.
- *Concern was raised about market fluctuation and the small sample size of homes for sale relative to all homes in Boulder.* Ms. Aggeler responded that the initial intent was to use county assessor’s data to compare with 2015 sales, but there are currently issues with the data. BBC used over 800 transactions, a reasonable sample size. It was noted that the 2015 data is the most important to understand because it is what people can buy now.
- *Does the data provide insight into demolition of existing homes replaced by larger, more expensive homes?* Concern was raised that the practice eliminates housing that was affordable

to a larger share of households and replaces it with housing affordable to only a small share of households. Ms. Aggeler responded that the data only reflects the straight prices of what was sold. Assessor's data could provide insight into this particular issue.

- *In regard to the slide showing the increase in average unit size between 2000 and 2015, several council members were interested in what drove that phenomenon. Remodels and scrapes and rebuilds on existing lots or greenfield construction and market trends? Any factor leading to increased home size was captured in the data, but could not be separated out using basic sales data; however, agents do sometimes chose to report the nature of a change in unit size (e.g., basement finish, new accessory unit) in a listing's comment field.*
- *Was access to yard space an important consideration for middle income households? Ms. Aggeler responded yes; this was a finding from the 2013 Housing Choice survey conducted by BBC. Storage for gear and area outside were also important considerations for in-commuters willing to consider living in Boulder.*
- *Considering that most attached products built recently are rentals and not for sale, can we assume that the data is largely reflecting that older for sale units are more affordable? Ms. Aggeler responded that yes, older condos are more affordable in general.*
- *Interest was expressed in further analysis to compare the per square foot cost of attached new construction to older attached units in order to better understand if the attached affordability results primarily from the age of the attached product in Boulder or from the attached nature of the product. Ms. Aggeler responded that BBC could provide the price per square foot of new construction compared to existing units for attached housing.*
- *What is the connection with construction defects and the lack of new attached for sale products? Ms. Aggeler responded that in her discussions with developers, construction defects was mentioned, but other issues were identified as more significant barriers, including high land costs, the long city review process and the overall complexity of the development code.*
- *Concern was raised over including resort towns in the staff analysis of other middle income programs and strategies.*
- *How can we keep middle income units affordable over time (e.g. deed restriction) and how are other cities dealing with this issue? Ms. Aggeler responded that deed restrictions are more reliable to ensure affordability long term, but that "the solution" is hotly debated in communities across the country. There is no magic bullet (you cannot entirely solve the affordability challenge). An alternative framing of the question is "how can we do the best job possible to maintain our income distribution?" Each community must determine the right combination of policies and programs to achieve its goals. The erosion of the middle class is a nationwide phenomenon with which many other jurisdictions are struggling. For example, Albany, NY, which is not a high growth community, is experiencing high housing prices with high income renters driving up prices.*
- *Concern was raised about the cost burden benchmark (no more than 30 percent of income toward housing costs). Is it still an appropriate benchmark for cost burden or have people found ways to make due? Ms. Aggeler responded that there is strong evidence in the 2014 Housing Choice Survey of households making tradeoffs to live in Boulder, for example paying more and living in overcrowded conditions. In some cases, for example for individuals in their early earning years or for seniors who may have lower costs overall, arguments are made that a higher housing cost burden may be acceptable; however in Colorado we tend to have more sales tax and less property tax, therefore in addition to the benefits to individual households, additional spending power is important to local economies. Ms. Aggeler mentioned a recent study in the Denver Metro area that explored the benefits of reducing housing cost burden.*

- *Did you see an increase in social service needs with high housing cost burdened households?* Ms. Aggeler responded that a study was recently completed which examined the economic benefits of reducing cost burden through housing subsidies. She offered to provide the study to council. The study concludes that reducing household spending on housing costs can raise sales tax revenues by redirecting household spending on consumer goods.

Ms. Richstone concluded the meeting by saying that part 2 of the study session on March 29 will go into more detail about staff's proposed areas of focus for a middle income housing strategy.

March 29, 2016 Study Session Summary on Developing a Middle Income Housing Strategy (continued)

PRESENT

City Council: Matt Appelbaum, Aaron Brockett, Jan Burton, Suzanne Jones, Lisa Morzel, Andrew Shoemaker, Sam Weaver, Bob Yates and Mary Young

Staff members: City Manager Jane S. Brautigam, Executive Director of Planning, Housing + Sustainability David Driskell, Deputy Director for Planning Susan Richstone, Comprehensive Planning Manager Lesli Ellis, Housing Planning and Policy Manager Jeff Yegian and Senior Planner Jay Sugnet

OVERVIEW

David Driskell introduced the agenda, explaining the study session would build on the previous study session which delved into BBC Research and Consulting's findings in the Middle Income Housing Study. He provided an overview of the overall Housing Boulder work plan, revisited key themes and findings of the BBC study related to middle income housing issues and potential interventions. Leslie Ellis described the integration of the middle income housing strategy work into the Boulder Valley Comprehensive Plan. Mr. Driskell then presented a proposal to have a working group comprising council members, planning board members and housing advisory group members support development of the Middle Income Housing Strategy.

Following is a summary of questions raised during the session and responses provided:

- *The finding that 99 percent of rentals are affordable to middle income households is still surprising in the context of recent significant rent increases.* Heidi Aggeler with BBC Research and Consulting explained the methodology to calculate affordability and noted that middle income households have quite high incomes, so while rents have increased they remain affordable to this income bracket.
- *Is there a product gap because higher cost housing is unaffordable to lower income households now, but much of it may be undesirable to middle income households? Also, what share of middle income households desire to rent?* Per the Housing Choice Survey, Ms. Aggeler, said, it was true that lower income households were more likely to make the trade off to rent in order to live in Boulder, but middle income households, with more choice, are likely to be more particular about what is an acceptable rental product type and less likely to rent. Though we have a tendency to compartmentalize preferences, people have broader choice driven by preference and what is available in nearby communities. Mr. Driskell noted that Boulder has a

robust rental housing stock and single-family homes are a part of it. He also noted that we are losing the affordability of that product type fastest, so a central question is how we can replace this housing type within the community. We would be stretched to develop new affordable detached housing in Boulder. Ultimately, Mr. Driskell stated, we must ask where we will put our limited resources.

- *The vast majority of housing that has come into the community in recent years has been rental. What tools and leverage do we have to encourage affordable middle income homeownership opportunities?* Mr. Driskell explained that we can drive outcomes in annexation agreements, but in many developments we have no say in tenure. In addition to annexations, the other significant opportunity we have to stipulate the details of product type is through funding our affordable housing partners.
- *What are the numbers behind the trends related to preserving market-rate housing affordable to middle income and large lot redevelopment?* There are instances where middle income households are selling their homes, which are then purchased by higher income households. The market prices and condition is shifting the house to ownership by a higher income household, which in many cases have the resources to maximize the property and add on.
- *Why hasn't the area around Pearl Parkway and the 55th Street corridor and Arapahoe been included?* Ms. Ellis stated that for the 2040 projections, we did not assume residential in industrial areas. Future analysis may occur to explore residential in areas currently zoned industrial.
- *What kinds of assumptions were made about commercial vs. residential outcomes in mixed use areas? How can the city incentivize housing outcomes in mix use-zoned areas given that they are trending commercial currently?* Ms. Ellis stated she would send out the mixed use assumptions after the meeting.

After the presentation, Mr. Driskell invited council to provide feedback on the proposed Areas of Focus, integration of the Middle Income Housing Strategy with the BVCP update, feedback on potential interventions and the proposal to convene a working group that could potentially comprise city council and planning board members as well as housing advisory group members.

Areas of Focus

1. Focus on homeownership opportunities
2. Focus on attached housing types
3. Focus on preservation of existing middle income housing where cost effective
4. Create community and support neighborhoods
5. Ensure that most new housing is affordable to low, moderate and middle income households

There was general support voiced for the areas of focus, with the following concerns and ideas raised:

- **Address pops and scrapes.** Significant concern was expressed by several council members related to pops and scrapes. Though homes that are scraped are generally unaffordable to middle income households prior to redevelopment, this is seen as a loss of relative affordability and a case in which Boulder is “losing its soul” or social fabric. Cases were noted in which the redevelopment of single-family homes increased the home value fourfold. It was also postulated that removing the potential to scrape homes could reduce some appreciation because redevelopment potential would be reduced. *How do we let homeowners know there are other options beyond scraping a home and rebuilding it as big as possible?* Mr. Driskell stated that

there are multiple interventions such as land use and equity recapture and consideration must be made as to where the city's resources should be spent. *How would you approach rezoning in an established neighborhood (to reduce scrapes)?* Mr. Driskell stated that could be explored through the BVCP update.

- **Don't inadvertently create more student housing.** Ensure the product type intended for middle income households doesn't become student rental housing.
- **Mixed opinions on ADUs.** Some concern was raised about wrapping ADUs and OAU's into the Middle Income Housing Strategy effort; however there was some disagreement on this point. One council member mentioned that policies in other cities such as deed restricting ADUs, legalizing illegally established ADUs, and fast track measures highlight simple interventions to enable this housing type. Mr. Driskell stated that ADUs and OAU's are a separate work item not included in the Middle Income Housing Strategy.
- **Too many focus areas.** Some concern was raised that with so many focus areas, there isn't adequate focus. It was proposed that the focus areas should be defined by the desires and needs of the "customer", for example, in-commuters who wish to live in Boulder desire a small yard space or seniors who wish to downsize into a patio home-type product.
- **Consider city policy intervention in condominium defect litigation.** Interest was expressed in exploring potential city interventions in the issue of condominium defect litigation. Related to this, a council member requested that the future analysis include exploration of the possibility that many of the recently built apartment units could convert to for sale condos within five to 10 years, adding 1,000 or so attached for-sale units in Boulder.
- **For new construction, location is important.** There are areas of town that would support redevelopment and a more middle income-oriented product type, but not all of Boulder.
- **Senior housing is key to middle income housing opportunity.** Our efforts should focus in part on the turnover as seniors downsize and our ability to intervene and use that as an opportunity to ensure affordability into the future.
- **In some cases, we must act quickly and prioritize our actions.** Actions should be categorized into short, medium and long term. There are some actions that need to be taken immediately or we will lose the opportunity.
- **Implications of higher share of permanently affordable and deed-restricted housing.** *How much legal authority do we have to require that most or all new housing opportunity is affordable to any income group? What does it mean for the community to have a significantly increasing number of units in the community deed restricted for affordability?*
- **New construction will be a relatively small share of the middle income housing solution.**

Integration with BVCP Update

There was general support for the approach proposed to integrate the Middle Income Housing Strategy into the BVCP update.

- **Careful analysis of middle income product type (get it right).** A request was made that the analysis include a robust look into the product type that truly will serve the middle market, but to avoid trying to over control outcomes.
- **Explore industrial areas for housing opportunities, but consider impacts on sectors served (e.g., service industrial).** Related to areas of change, interest was expressed in looking at industrial areas for housing opportunities, yet concern was also expressed for the loss of the most affordable service industrial lands.
- **Jobs:housing balance.** Related to the jobs:housing balance, interest was expressed in exploring reducing job potential in Boulder as well as the nature of jobs we have attracted to Boulder.

Also, explore what it might look like if jobs still come to Boulder County or the US-36 corridor, but not to Boulder – will the impacts on Boulder be the same regardless? A request was made to, in a follow up to the community survey, explore community sentiment on the jobs:housing balance question in order to better understand public sentiment around controlling the increase of housing and/or job opportunity in the community. There is a paradoxical sentiment that Boulder is growing and changing too much and housing is becoming unaffordable.

- **Beware of overwhelming the community with too much change too quickly.** The rate of growth and change matters, and people are experiencing lots of change currently. We need to understand their appetite for change.
- **Community engagement.** A general request was made to ensure that adequate outreach and engagement occurred around any potential changes.

Potential Interventions

Ideas discussed by the full council:

- **Explore preservation of smaller homes on large lots.**
- **Explore ways to restrict new home sizes in Boulder.**

Ideas mentioned by individual council members:

- **Explore down payment assistance and an evergreen loan fund** to assist middle income homebuyers to purchase single-family homes the city would then secure with deed restricting covenants.
- **Explore a progressive fee based on home size, in which fees are heaviest on large homes.**
- **Prioritize preservation of property rights and incentivize other (e.g., smaller or more units) options.**
- **Consider density increases in under-utilized, rundown, renter-heavy residential areas combined with recapture methods.**
- **Consider eliminating the per dwelling unit open space requirement.**
- **Consider Area III.** Staff confirmed it was agreed Area III would not be considered as part of this BVCP update.
- **Explore ways to reduce risk to developers.** Review city fees, policies and processes that may add risk to a project. Concern was raised that if city fees are set correctly, then lower fees is a form of subsidy.
- **Explore targeted process streamlining.** *Could we genuinely streamline the process for specific outcomes we desire?* Santa Cruz's ADU program provides pattern books for ADUs.
- **Approach subsidies to middle income households with caution.** Place careful controls and requirements on any subsidies for middle income households.
- **Consider mobile, manufactured and modular homes as part of the Middle Income Housing Strategy.** (Provided in follow-up email posted to the council hotline.)

Working Group

There was general support for moving forward with the concept of a working group that would include council, planning board and city housing advisory groups. A proposal for the process would be presented in the next month. The group would only be advisory and not make decisions. It was suggested that there be a more action-oriented component of next steps.