STUDY SESSION MEMORANDUM

TO: Members of City Council

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SUBJECT: Middle Income Housing Strategy

EXECUTIVE SUMMARY

The purpose of the study session is to request council feedback on the development of a 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."

Specifically, this memo and study session will:

- Summarize findings from 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;
- Provide an overview of 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;
- Present draft "areas of focus" of the strategy for Council feedback;
- Provide an overview of potential interventions based on consultant input, working group discussions, and a review of middle income housing approaches from other cities; and
- Outline proposed 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.

Why a Middle Income Housing Strategy?
Like the deed-restricted units created through the city's affordable housing program for low and moderate income households, middle income housing helps provide socioeconomic diversity in the community, and reduces in-commuting by members of the city's workforce (for purposes of this discussion, "middle income" is defined as approximately 80 to 150 percent of Area Median Income, which for a three-person household currently translates to annual income of between $68,200 and $134,250).

The shrinking of the middle class is a nationwide trend, but is more pronounced in Boulder. Since 1989, middle income households have declined from 43 percent of Boulder's households to 37 percent. Lower income households have remained relatively steady due in large part to efforts by the city and its affordable housing partners, while higher income households are replacing middle income households within an environment of escalating home prices.

As highlighted in the Middle Income Housing Study, the parts of the housing market where affordability has eroded the most for middle income households is in for-sale detached single family housing, where only 17 percent of home sales in 2015 were "middle income affordable." Attached homes (such as townhomes, duplexes and condos) are more within reach for middle income buyers, with 67 percent of 2015 sales being in the affordable range. Rental housing in Boulder, by comparison, continues to be affordable to middle income households, despite recent increases in rent levels. The study shows that 99 percent of market-rate rentals in Boulder are affordable to middle income households. New rental developments are primarily larger complexes oriented towards young professionals and "empty nesters."

The overall erosion of affordability in Boulder is the source of considerable community concern, as expressed in the recently completed community survey for the Boulder Valley Comprehensive Plan (BVCP), last year's Housing Boulder community engagement process, and the continuing debates around growth and development in Boulder.

What Can the City Do?
The *Middle Income Housing Study*'s results provide a foundation on which to develop a meaningful strategy that helps expand and sustain housing choices for middle income households in Boulder in a manner consistent with community values.

Boulder is not alone in terms of eroding middle income affordability. Other cities with high housing costs in North America are taking action by setting ambitious goals to increase the share of middle income housing stock. To achieve these goals, several cities adopted regulations requiring middle income units with new development (e.g., inclusionary zoning), created additional funding sources (e.g., linkage fees), changed land uses to encourage middle income housing, and provided incentives (e.g., density bonuses and fee reductions).

To maintain housing in Boulder for middle income people, the city will need to pursue a combination of new goals and policies, regulations and incentives, programmatic interventions, and funding mechanisms. A list of potential interventions is provided later in this memo, many of which were discussed and prioritized last year by the "Maintain the Middle" working group in

the Housing Boulder process. Analysis and strategy development work in the coming months will explore the potential interaction between these interventions, and—importantly—integrate the analysis of potential land use changes and other policy initiatives within the work of the Boulder Valley Comprehensive Plan (BVCP). This work will also look at affordable housing issues more broadly, including how current policies and regulations—including land use—support the city's continued effort to create permanently affordable housing outcomes for low and moderate income households.

Proposed Process and Next Steps

Staff proposes the following steps to create a Middle Income Housing Strategy:

Clearly Define the Problem We Are Trying to Solve

- ✓ Determine **what the market is currently producing** to serve middle income households and how unit size and location affect pricing over time (*Middle Income Housing Study*).
- ✓ Within the context of the BVCP update, analyze **what housing types the market is likely to produce in the future** based on our current regulatory framework and land availability *(preliminary analysis completed; additional analysis forthcoming*).
- ✓ Define **key areas of focus** to guide further analysis and the development of appropriate strategies and interventions (*draft areas of focus presented in this memo*).

Evaluate and Prioritize Policies, Strategies and Interventions

- Identify and evaluate **potential interventions and their relative effectiveness** in response to the key areas of focus.
- As part of the BVCP, prepare **land use and policy choices or scenarios** that could support middle income housing outcome as well as the city's broader affordable housing goals, and how each scenario might perform in relation to other potential interventions (land use and policy, regulatory, and funding/programmatic) to produce desired middle income housing types.
- Based on analysis, define **priority policies, strategies and interventions**, incorporating them as appropriate in the BVCP policy and land use changes and in the draft Middle Income Housing Strategy (MIHS) as well as other Housing Boulder strategy initiatives.
- Define **metrics of success** for maintaining and expanding opportunities and choices for middle income households, establishing quantified targets where appropriate.
- Work with the BVCP process subcommittee to develop an **integrated public engagement** plan for the MIHS work within the overall BVCP process.

Develop the Draft MIHS as part of the city's Comprehensive Housing Strategy

- Prepare the **Middle Income Housing Strategy** based on analysis, community input and direction from boards and council, including priorities for implementation in the two-year Housing Boulder Action Plan.
- As appropriate, update other aspects of the city's **Comprehensive Housing Strategy and two-year Action Plan** to guide work in support of low and moderate income housing as well.
- Develop a methodology to **monitor key market indicators** to provide better 'real time' information on developing trends in the local and regional housing markets, measure the success of city- and partner-led interventions, and inform potential next steps.

Questions for City Council

1. Does council have questions or input on the Middle Income Housing Study (**Attachment A**) or the analysis of future housing outcomes based on current policies and market trends (**Attachment B**)?
2. Does council have feedback on:
    - the proposed "areas of focus" to guide development of the Middle Income Housing Strategy;
    - the approach to analysis, including the evaluation of potential land use changes as part of the BVCP; and,
    - potential regulatory interventions, funding approaches, and other interventions to be explored?
3. Does council have questions or input related to the proposed process and timeline?

I. BACKGROUND

Since adoption of Boulder's 1999 Housing Strategy, the community has made significant progress toward achieving the city's adopted housing goals, resulting in thousands of permanently affordable housing units for low and moderate income households and placing Boulder in the forefront of housing policy and action nationwide. However, Boulder's housing market continues to be strong, and housing affordability challenges have continued to grow, particularly during the recent economic recovery.

In response, City Council set in motion a policy initiative in 2013 to define Boulder's "next generation" housing strategy that would build and continue the successes of the past while expanding the city's toolkit to respond more effectively to new and emerging challenges. Subsequent work efforts have included the Boulder Housing Market Analysis and the Boulder Housing Choice Survey and Analysis; development of the Toolkit of Housing Options; Council adoption of the Housing Boulder goals; and a substantial community outreach and engagement effort that included a town hall meeting, a panel discussion of invited experts from other parts of the country, goal-focused working groups, sub-community meetings, and the piloting of new online engagement tools. In total, well over 1,500 people participated in the community conversations and events since January 2015, building on the 3,000+ participants in the initial survey work which resulted in the presentation of Preliminary Themes that could form the basis of an updated strategy, and subsequently Council approval of the Housing Boulder Action Plan for 2015 and 2016. The action plan approach was developed in response to community contention around some aspects of the strategy development process, and the perception by some that finalizing the full strategy could not be completed until conclusion of the BVCP update. The action plan has since been updated, and was discussed with Council at its January 2016 retreat. The updated action plan can be found here.

Most relevant for this particular effort, work in 2015 included a Working Group focused specifically on the "Maintain the Middle" goal approved by Council. This group spent several months discussing the topic in depth. A Maintain the Middle Fact Sheet was created as a basis for the conversation and a summary of the group's discussions is available as **Attachment C**. The group recommended changes to the Maintain the Middle goal, as well as specific tools worth additional study that are incorporated into later sections of the memo.

The working group's recommendations as well as other input gathered in the 2015 engagement activities will be carried forward as part of the current analysis, and working group members will be invited to review and comment on materials as the strategy development process proceeds.

A complete summary of the Housing Boulder process to date, including access to all related materials, can be found on the project website at www.HousingBoulder.net.

This study session memo will be discussed with the Planning Board on Feb. 18 and board feedback will be presented at the council study session.

II. ANALYSIS

A. Middle Income Housing Study Summary

BBC Research and Consulting (BBC) was contracted to provide a detailed market analysis of middle income housing (**Attachment A)**. In addition to the market study, BBC met with developers to discuss market demand for housing; the types of products missing in Boulder; and recommendations for how the city could facilitate development of housing attractive to middle income households (**Attachment C**). Finally, staff conducted research on what other communities are doing to encourage middle income housing (**Attachment D**).

Recommendations from BBC for potential areas of city action as well as results from the review of best practices in other cities are incorporated in later sections of this memo. Following are some of the highlights from the recently completed market study:

- The share of Boulder's **middle income households has declined 6% since 1989**, offset by an increase in high income households.
- It is increasingly difficult for middle income families to find housing in Boulder. **Housing prices have risen 31% in the past two years** alone.
- **Middle income households can afford 99% of city's rentals**, but only 67% of attached homes and 17% of detached homes for sale in 2015; therefore, the main gap in middle income housing products is for-sale.
- The **inventory of homes affordable to middle income households has decreased over the last fifteen years**, with just 72 single-family detached homes affordable to middle income buyers in 2015 compared to 239 in 2000, and 262 attached homes affordable to middle income buyers in 2015, compared to 515 in 2000.
- **Attached homes maintain affordability better than detached homes**.
- Attached units maintain a lower price even in high-demand areas in Boulder and are less likely to expand in size.
- The 2014 Housing Choice survey revealed that 53% of in-commuters surveyed would consider moving to Boulder in the future. To live in Boulder:
  - Half would be willing to live in a townhome;
  - One-third would live in a duplex/triplex/fourplex.

B. Analysis of Current and Future Trends

Policy Basis for Residential Land Use

The land use pattern in the Boulder Valley is well established after decades of guidance from the Boulder Valley Comprehensive Plan (BVCP) and thoughtful growth. The plan reflects community core values, including a compact community with a defined urban edge and protection of the natural environment.

The BVCP is considered "an integral link in the community's housing strategy." The land use plan identifies desired locations, densities and types of housing planned for Boulder. Housing policies include a goal for low and moderate income housing (but not middle income). The plan also promotes a "mixture of housing types… to meet the housing needs of the full range of the Boulder Valley population" (Policy 7.06), preservation of existing housing stock (7.07), diversity of housing (Policy 7.09), and balancing housing supply with employment (7.10), to name a few.

Since the 1970s, the city and county have worked together to plan for urban development where it can be served by urban services and restrict residential sprawl, and they have undertaken zoning or regulatory changes or other measures to implement the plan. While the community sees many benefits of its regional land use growth policies such as efficient and sustainable provision of services, open space conservation, and predictability, it also means that city land available for future housing is limited. Almost no vacant parcels lie within city boundaries (those that do remain vacant are either significantly constrained or the focus of community controversy), and most of what can or may be built in the future will rely on redevelopment or retrofit of existing buildings.

Addressing needs of established and stable neighborhoods, preserving the affordability of existing housing, and identifying opportunities for additional housing will be key aspects of a Middle Income Housing Strategy (as well as other efforts to create new affordable housing opportunities in Boulder). As was highlighted in the controversies of last year, community goals for 'preserving neighborhood character and quality' and goals for creating new affordable housing opportunities can often be seen as being in conflict. Developing strategies to address and resolve those real and perceived conflicts will be essential; but so too will be strategies that can potentially create new residential neighborhoods where none have existed before, as has been the case in the Boulder Junction area; introducing housing as a use within existing commercial, mixed use and light industrial areas; and transforming public or institutional land into new housing opportunity sites (as in the case of the Boulder Community Health sites on Broadway and Mapleton Hill).

Analysis of Current Trends and Residential Potential

As part of the BVCP foundations work last year, staff analyzed potential for future housing and jobs within city limits and Area II eligible for annexation. The 2040 Projections and assumptions can be found here. In sum, by 2040, the city has capacity for about 6,760 new housing units (including almost 1,400 units projected by CU), and approximately 19,000 new jobs based on existing zoning. While it is anticipated Boulder will reach capacity for housing at or before 2040, current zoning provides capacity for employment growth past 2040.

To prepare for the February study session and upcoming scenario preparation and analysis, staff prepared a finer grained study of the GIS-based housing projections using field verification and assessing what recently has been built in comparable zoning districts. This analysis helps with

understanding the real potential for additional housing under current zoning, and what types of changes to the land use plan and policies may lead to more attainable housing for middle income buyers as well as renters.

The *Middle Income Housing Study* combined with analysis of the projections using GIS and field analysis suggests that the current land use and capacity trends combined with continuing increase in housing prices, will lead to continued loss of affordable middle income housing options in Boulder. A summary of the current trends analysis is included in **Attachment B**, which includes quantitative information by subcommunity. In sum:

- Adjusting the 6,760 additional housing units projected under the current comprehensive plan and zoning to remove units under construction or receiving permits since the projections were prepared (902), units planned by the University of Colorado (1,372), units that will not occur until Phase II of Boulder Junction and the properties are rezoned (987), and units that are owned by religious institutions or private schools (474) reduces the residential capacity by approximately half, leaving 3,025 potential new units.
- The availability of land for new housing units is significantly less than what the projections imply.
- Remaining housing capacity is generally located along corridors, downtown, and in mixed use areas. It is not in neighborhoods, though these places are sometimes adjacent to neighborhoods. The subcommunities with the most housing potential are Crossroads, Central Boulder, and North Boulder.
- Many of the projected units are on sites dispersed throughout the city and are based on redevelopment of existing buildings and sites, which may or may not occur.
- Attached products have trended toward rental apartments, not for-sale units, and only in limited quantities other attached housing types such as townhomes. Additionally, the amenities and style of many recent multi-unit buildings are oriented toward single or younger professionals rather than families (e.g., no playgrounds or limited green space).
- The mixed use districts are currently trending toward non-residential office (e.g., in DT or BT districts), so the residential estimate may be high in these areas.
- Detached single family homes are trending toward larger houses (in new construction as well as through demolition and reconstruction, or significant additions), making them increasingly unaffordable to middle incomes, as noted in the BBC report.
- The few remaining large sites planned and zoned for housing tend to have constraints and face neighborhood opposition, environmental concerns, and/ or other concerns (e.g., Hogan Pancost, Twin Lakes, Waterview, MacKenzie Junction), which makes them reliant on extensive review processes with unpredictable outcomes.
- The city's current regulatory requirements (Inclusionary Housing) assure additional permanently affordable housing units for low and moderate income households. The city's current regulations do not require units affordable to middle income households. Annexation policies do secure permanently affordable middle income housing, however very few additional sites remain eligible for annexation. While current market trends are resulting in market-rate rental units affordable to middle income households, that is not the case for ownership units.
- The analysis does not account for public parcels that are changing to private use, nor does it presume any residential development in industrially zoned areas even though the code contains some provisions allowing residential units in industrial zones.

Demographic Trends
While the Middle Income Housing Strategy will be vision driven (seeking to be the community we want to be, rather than letting market forces alone shape our future), it is critical that it be data informed. Future demographic trends, while not summarized here, will be an important consideration as the strategy begins to take shape. For example, the trend of an aging population suggests that the need for housing for middle income seniors will increase, particularly as older people seek to move out of their current homes but wish to remain a part of the community. The strategy may wish to consider setting specific goals by age group, household type, and/or other areas of need, as was done in Boston's strategy.

Community Survey Responses

> *"The accelerating pace of housing cost will limit the diversity of housing choice which will, in turn, limit how welcoming and diverse we can be."*
>
> *The (large houses) are "dwarfing the neighborhoods that had such character. They are using the entire yard to building onto the present houses. I would like to see the trend of smaller homes."*
>
> Respondents to BVCP Survey, 2015

The BVCP survey conducted in fall 2015 helps shed light on the importance of this issue to the community. Affordable housing was a major theme across several questions in the weighted and unweighted responses. Survey results can be found here. In particular, open ended comments provided thoughtful insights into community members' concerns about housing and neighborhoods.

- When asked about community values in greatest need of increased attention, respondents thought "a diversity of housing types and price ranges" topped the list (63% for top 3 priorities and 56% for top 2 priorities).
- When asked how Boulder should address future housing (increase, maintain, or reduce current potential), most respondents think Boulder should increase (43%) or maintain (39%) the current potential, while a more modest share would prefer to reduce the potential for additional housing (12%).
- 43% think the city should maintain its system of limiting the rate of housing growth (no more than 1% per year on average).
- In written comments, respondents also noted the increasing importance of housing attainable to low and middle income groups while others expressed concerns about government involvement and neighborhoods.

III. DEFINING THE PROBLEM AND FOCUSING THE RESPONSE

What's the Problem We're Trying to Address?
As shown in the study results, housing in Boulder is increasingly unattainable to middle income homebuyers. In particular, detached single-family homes are already out of reach for most middle income households, and for-sale attached housing—such as townhomes, duplexes and condos—while relatively more affordable, are increasingly out of reach as well. As existing

middle income households age and reach the point of selling their current home, the trend of eroding middle income housing options will continue and potentially accelerate.

Fortunately, rental housing remains affordable for the middle income, although the range of choices for those seeking to live within neighborhoods, rather than in larger complexes, is static. Recent developments in particular are focused on working professionals (where there is significant need and demand) but are less oriented towards families.

This situation is compounded by limited land for new residential development. Opportunities for detached housing that could serve middle income households are extremely limited, and even opportunities for creating new attached housing are less than previous broad-stroke analyses have indicated.

Without intervention, these trends will continue to erode middle income housing opportunities in Boulder.

How Can and Should We Respond?
Staff would like feedback from council regarding the following proposed areas of focus for development of a Middle Income Housing Strategy. Importantly, some of these areas of focus will also help advance the city's goals in relation to lower and moderate income housing choices. Council feedback will help focus the process and community discussion.

1: Focus on homeownership opportunities for middle income households.
Since rentals are largely affordable, the city should explore and adopt tools that support provision of for sale housing that is affordable to middle income homebuyers.

2: Focus on attached housing types.
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 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.

Other cities addressing middle income housing deploy a variety of tools, but few provide direct subsidies to create new units. Currently, Boulder subsidizes the creation of low and

moderate income housing units by its partners through both new construction and the acquisition of existing housing. The level of subsidy ranges between $35,000 (when other non-city subsidies are leveraged) and $92,500. Staff is currently working with the Development-Related Impact Fees study consultants to estimate the subsidy to make housing types that are attractive to middle income households. The Housing Boulder Maintain the Middle working group discussed this issue and was split as to the value of publicly subsidizing middle income housing, particularly if it is at the expense of the low and moderate income housing program.

The strategy should evaluate the tradeoffs between tools that could help preserve middle income affordability in existing housing, but with careful consideration of the "bang for the buck" of potential investments in relation to other community housing needs. Direct city investment may be best targeted at the preservation of middle income affordability in attached housing, not detached housing.

4: Create community and support neighborhoods.
The *Middle Income Housing Study* notes that some of the most affordable units are in places that are less desirable or were not built to preferred standards. As the process evaluates potential tools and interventions, such as land use changes in transitional or changing areas, strong consideration should be given to how they can strengthen these communities and neighborhoods. Additionally, opportunities for "gentle infill" (such as accessory units, house-behind-a-house, and duplexes) in established neighborhoods can help create middle income housing opportunities in these areas that will, over time, become predominantly if not entirely high income.

5: Expand the potential for residential development, and ensure that most new housing is affordable to low, moderate and middle income households.
With limited opportunities and little remaining capacity for residential development (approximately 3,025 residential units), most new housing produced in Boulder would need to be attainable to low, moderate and middle incomes if the city is to retain anything close to its current income diversity. If some areas that could be suitable for higher density development are designated for medium density housing types that are more attractive to middle income homebuyers (such as townhomes and duplexes or triplexes) then the overall number of potential units may decline further unless offset by changing land uses in other areas from commercial or light industrial to residential and/or mixed use.

IV. RANGE OF POTENTIAL INTERVENTIONS

Potential interventions are organized under the categories of Land Use and Policy, Regulatory, and Funding/Programmatic. For each category, an initial discussion of potential options is provided drawing on the Housing Boulder Toolkit of Housing Options as well as consultant recommendations, staff's review of approaches in other cities, and input from the Maintain the Middle working group.

Additional analysis, community engagement and discussions with Council and boards will be needed to evaluate each category and option and determine which, if any, should be adopted. The process for doing so is briefly outlined under "Next Steps."

Land Use and Policy Interventions
Potential land use and policy interventions will be evaluated as part of the BVCP process, as outlined in the "Next Steps" section of this memo.

- Land Use and Zoning Designations – As part of the BVCP, assess ways to modify land use descriptions or land use on the map (with subsequent potential changes to zoning and zoning district regulations) to encourage or require housing attractive to middle income households (e.g., smaller attached building and units with better design and amenities). Seattle and Boston, two communities profiled in **Attachment D**, plan to use land use policy followed by zoning changes to introduce desirable housing types for middle income households. The approach can be combined with a "value capture" or "incentive zoning" mechanism to help ensure that any density increase is accompanied by the provision of affordable housing and/or defined housing types. This intervention is relevant for all of the city's affordable housing goals, not just middle income, though the design of the intervention may vary based on whether it's intended to drive permanently affordable housing for low and moderate income versus non-subsidized market rate units intended to serve middle income households.

  In survey results, "providing permanently affordable housing" was selected as the first priority for developer requirements. Second by a small margin, was limiting height and protecting views, suggesting that design and location are important. Linking height modifications in selected areas with incentive based zoning mechanisms for affordable housing can help ensure the desired additional community benefit in return for increasing density.

- Annexation Policies – Consider increasing the requirement for middle income housing as a condition of annexation. The city's current policy calls for 40 to 60 percent of the units to be permanently affordable to low, moderate and middle income households.

- Balancing Housing with Employment – As part of the BVCP scenarios, explore changes to the land use plan to encourage residential potential in certain industrial/commercial and public/institutional zones or "areas of change" to improve the imbalance between future residential potential and future job-creation potential. When doing so, focus on opportunities for housing to meet the needs of low, moderate and middle income households. Survey results suggest general support for increasing residential potential while maintaining a slow growth rate.

- Neighborhood Amenities and Improvements – As part of the BVCP, assess and put in place policies to strengthen neighborhoods in conjunction with the preservation of middle income housing opportunities and the creation of new opportunities. In particular, improve transitional residential areas that have affordable housing but lack organized community structures and amenities. Incentive zoning mechanisms or legal/financial tools should be linked to improvements to avoid making housing unaffordable, as they likely will increase property values and thus housing costs.

- Mixed Use Affordable Housing – Survey results suggest that people generally support mixed use but are concerned about the design, type of mix, and the lack of "on site" affordable units in recent developments. Design of features, such as parking and open space, are also important, especially relative to location. Evaluation of potential interventions should assess the relative increase of residential uses in mixed use areas as well as overall housing and transportation costs (factoring in location efficiencies that help reduce overall living expenses) and other benefits such as reduced greenhouse gas emissions.

Regulatory Interventions

A number of regulatory changes or incentives could improve housing options for middle income people. Currently, the only path to create permanently affordable middle income housing units is through annexation. The following interventions would expand current requirements or change the city's regulatory structure to encourage or require housing types not currently provided by the market, but which would better serve middle income housing needs.

- Middle Income Inclusionary Housing Ordinance – Require a certain percentage of all new units to be deed restricted. This would be similar to the current Inclusionary Housing requirement for 20% of units affordable to low and moderate income households (e.g., New York City allocates required affordable units in three categories: 20% low; 30% moderate; and 50% middle-income). Inclusionary housing is the most widely used tool in other cities to secure middle income housing with long-term affordability.

- Middle Income Housing Density Bonus – Restructure existing zoning districts or create new districts that provide for increased density based on proportional increases in deed restricted middle income units (or affordable units more broadly, including middle income). This would be similar to the bonuses currently offered for affordable housing in the Mixed Use 1 (MU-1) and Residential - Mixed 2 (RMX-2) Zone Districts. Several communities (New York City, Roseville, CA, and San Diego) have affordable density bonus programs. A density bonus could also be offered to incentivize developers to provide specific housing types (micro-units, townhomes, du-, tri-, and four-plexes). The Maintain the Middle working group discussed this tool and agreed that it should be explored in more detail.

- Fee Reductions, Expedited Review Process, and/or Modification of Standards – Similar to the Affordable Housing Benefit Ordinance included in the Housing Boulder Action Plan 2016/17, consider special fee and process accommodations for developments that provide a certain percentage of middle income units. Both Boston and Seattle have included actions around streamlining the review process in their middle income housing strategies.

- Unit Size Regulations – Although smaller units are more affordable, development regulations and market factors often drive the development of larger and more expensive housing units (**Attachment C**). Explore incentives and/or regulations to encourage new homes to be smaller and/or to preserve existing smaller homes and their relative affordability. This type of intervention could also explore regulations and/or disincentives to limit or even prohibit the construction of very large homes and/or the replacement or major expansion of existing smaller homes. At a minimum, it could review the city's zoning and development regulations to ensure that they drive desired unit sizes. San Francisco, Seattle, Boston and New York

specifically encourage micro-units as part of an overall middle income housing strategy (though obviously these unit types only serve individuals or two-person households).

- Regulatory Barriers – Assess regulatory barriers to affordable housing and potential to modify. The most common regulatory barrier identified in other cities and by area developers are minimum parking requirements. Two communities' affordable housing strategies include components around comprehensive parking reform (Seattle) and targeted parking reductions for desired housing types (New York City).

The Housing Boulder Maintain the Middle working group identified additional regulatory tools worth consideration: raising or eliminating ***occupancy limits***; raising ***height limits*** in specific areas of the city (included in the preceding list); and encouraging more ***accessory dwelling units and owner's accessory units*** (**Attachment E**). In addition, several cities profiled in **Attachment D** emphasized accessory units in their efforts to provide middle income housing.

Developers interviewed on how the city could facilitate development of middle income housing (**Attachment C**) identified regulatory barriers, high permitting fees, code complexity, lengthy review processes, and an overall high risk environment as factors pushing the market to develop larger, more expensive housing units (most of these are included in the preceding list of potential interventions). Many developers did agree that smaller units, incentives and an overall culture change would promote the production of more middle income housing units.

Funding / Programmatic Interventions

Funding would be the primary tool to preserve existing middle income housing units, but could also be used for new construction. Some funding currently used by the city (from federal sources) is restricted to low and moderate income housing, but the city could expand the income levels served in how it spends local funds. To not divert current funding sources from current goals related to low and moderate income housing, additional funding sources could include:

- Tax for Affordable Housing – Create a new or raise existing taxes to fund middle income housing units (e.g., occupational tax, hotel/accommodations tax, general sales tax, and property tax). Sales tax is one of the funding sources for Aspen's Housing Development Fund.

- Commercial Linkage Fee for Middle Income Housing – Expand the current affordable housing linkage fee on nonresidential development to address middle income housing needs. This is being considered as part of the Development Related Impact Fees and Excise Taxes study. Pitkin County, Roseville, CA, and San Diego, CA have commercial linkage fees that support middle income housing programs and production; however other communities like San Francisco strictly target low to moderate income households with their commercial linkage fee programs.

Funding could be used to expand the city's current down-payment assistance program to include 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.

Boston, San Diego, San Francisco and New York City are all examples of cities with homeownership programs with down-payment assistance that serve middle income households.

In addition, the Toolkit for Housing Options identified employer assisted housing as a tool. Employers could assist individual employees in the form of mortgage subsidies, down-payment assistance, and relocation payments. Some employers in mountain communities purchase housing directly for employees as part of an overall recruitment strategy. Other cities also assist employers with matching funds for various employer assisted housing programs.

V. BVCP AND NEXT STEPS

A successful middle income strategy will need a combination of policies (setting specific goals), land use changes, regulatory changes (e.g., incentive zoning) and potentially funding (e.g., linkage fees). Based on Council feedback, staff will proceed to refine the process and schedule for developing a Middle Income Housing Strategy, and work with the BVCP process committee to explore options for an integrated community engagement process. A follow-up study session for the Middle Income Housing Strategy is planned for the third quarter of 2016 to review an initial draft strategy and recommended interventions. The adoption of a final strategy is currently anticipated for early 2017.

Analysis of Scenarios through the Boulder Valley Comprehensive Plan

Since the middle income housing strategy preparation coincides with the update of the BVCP, the community will have opportunities in the coming months to assess how land use or policy changes to the plan might support middle income housing as well as other affordable housing outcomes as well as community objectives related to climate action, transportation, resilience, and jobs:housing balance. As noted above, the BVCP is an integral part of housing policy.

Materials shared with City Council for the Dec. 15 memo and the BVCP Phase 3 diagram illustrate how staff will work with the community to blend different objectives into scenarios and do the parallel work of policy integration and public request analysis.

Scenarios will be designed around objectives such as to:

- Identify areas of change and established areas, and test concepts in the transitioning areas;
- Achieve more diverse housing types to achieve middle income housing objectives as well as other affordable housing outcomes;
- Better balance future housing and jobs;
- Reduce Green House Gas emissions, miles traveled, cost for community services, and other impacts of development and growth and achieve community benefits; and
- Improve services, amenities, and placemaking for transitional places (e.g., parks, sidewalks, neighborhood serving retail).

Scenarios and analysis results will be presented using 3D visual maps, descriptions of what they are and what it would take to accomplish them, and analysis of their benefits and impacts.

The process may result in changes to the BVCP in the Built Environment chapter's character maps and descriptions; the Land Use Designation map; the land use definitions (e.g., new or

modified categories, including community benefits to achieve); and/or policies relating to housing, growth management, built environment, and neighborhoods.

A BVCP update often precedes regulatory changes (e.g., to the Land Use Code, to fees, or to enact other implementation tools). However, not all near-term regulatory changes need to wait for the update to be finished since the BVCP currently provides guidance on housing. Legislative approaches may be appropriate (e.g., accessory dwelling unit ordinance). Land use policy alone will not accomplish the challenge of housing affordability, and will need to be followed by regulations, incentives, funding or programmatic changes. As the case studies show, many communities use a mix of tools and strategies to accomplish middle income housing outcomes.

Council will have opportunities to see BVCP scenarios at a study session in April following community input earlier in April.

Next Steps
In addition to the scenario analysis undertaken as part of the BVCP update, staff will:

- Summarize input from the study session and refine the areas of focus and proposed analysis process accordingly;
- Work the BVCP process committee to define an integrated approach to community engagement in the strategy's development;
- Evaluate potential interventions and their relative effectiveness in response to the key areas of focus;
- Based on analysis, define priority policies, strategies and interventions, incorporating them as appropriate in the BVCP policy and land use changes and in the draft Middle Income Housing Strategy as well as other Housing Boulder strategy initiatives;
- Define metrics of success for maintaining and expanding opportunities and choices for middle income households, establishing quantified targets where appropriate;
- Return to Planning Board and Council later this year with the outline of a draft Middle Income Housing Strategy, based on analysis and community input;
- As appropriate and based on the outcome of the BVCP analysis and evaluation of other interventions, propose updates to other aspects of the city's Comprehensive Housing Strategy and two-year Action Plan to guide work in support of low and moderate income housing as well.

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

ATTACHMENTS

A. Middle Income Housing Study – *BBC Report*
B. Current Trends
C. Developer Discussions Memo
D. Middle Income Housing Approaches from Other Cities
E. Housing Boulder: Maintain the Middle Working Group Summary

BBC RESEARCH & CONSULTING

Middle Income Housing Study

City of Boulder

Final Report

Final Report
January 4, 2016

Middle Income Housing Study

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Table of Contents

ES. Executive Summary

Why a Middle Market Housing Study? 1
Who is the Middle Market? 2
What Can the Middle Market Afford? 2
What is Available to the Middle Market? 3
What are the Key Findings from the Middle Market Study? 4

I. Introduction to Middle Market Research

Why a Middle Market Housing Study? 7
Is This a New Challenge for Boulder? 8
Who is the Middle Market? 9
What Happens When the Middle Market Can't Afford Housing? 10
Organization of Report 10

II. Middle Market Housing Products

Who are Boulder's Middle Market Households? 12
Which Housing Products are Key to Maintaining Middle Market Households in High Cost Cities? 15
Where Do Boulder's Middle Market Households Live? 17
What Can Middle Market Households Afford? 22
If We Build It, Will They Come? 24

III. Missing Middle Price Trends and Affordability

Ownership Analysis 25
Rental Analysis 35

IV. Impacts of Middle Market Development

What Does the Future Hold? 41
Given Increases in Costs, is it Possible to Develop Affordable Middle Income Products in the Future? 42
If All New Products Developed are Middle Market, how Much Affordability is Added to Boulder? 42
What Can the City Do to Facilitate Middle Market Development? 43

SECTION ES.

Executive Summary

EXECUTIVE SUMMARY.

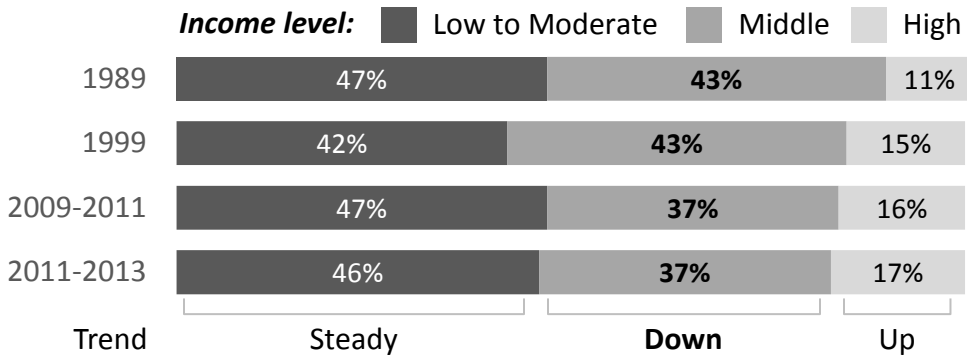
WHY A MIDDLE MARKET FOCUSED STUDY?

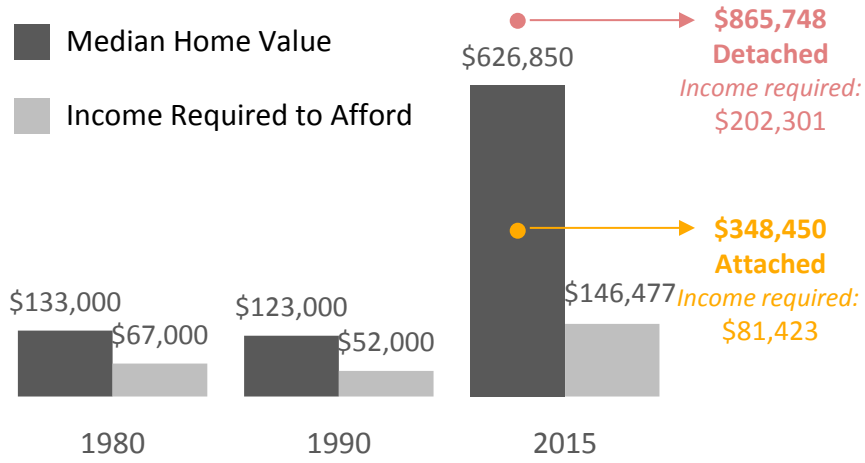
The share of Boulder's middle income households has declined from 1989, offset by an increase in high income households.

It is becoming increasingly difficult for middle income families to find housing in Boulder. Housing prices have risen **31%** in the past two years alone.

Middle income households have been an important part of Boulder's community historically—and are a critical part of the city's workforce.

Providing middle income housing options helps achieve numerous city goals: **Sustainability, Carbon Reduction, Economic Diversity.**





Middle income jobs include:
accountants, architects, librarians, veterinarians, and web developers.

EXECUTIVE SUMMARY.

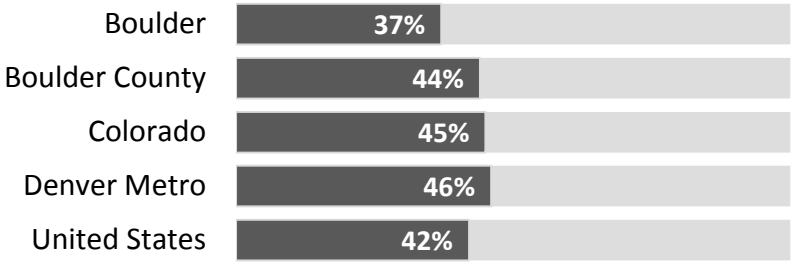
WHO IS THE MIDDLE MARKET?

80-150% of Boulder Area Median Income (AMI)

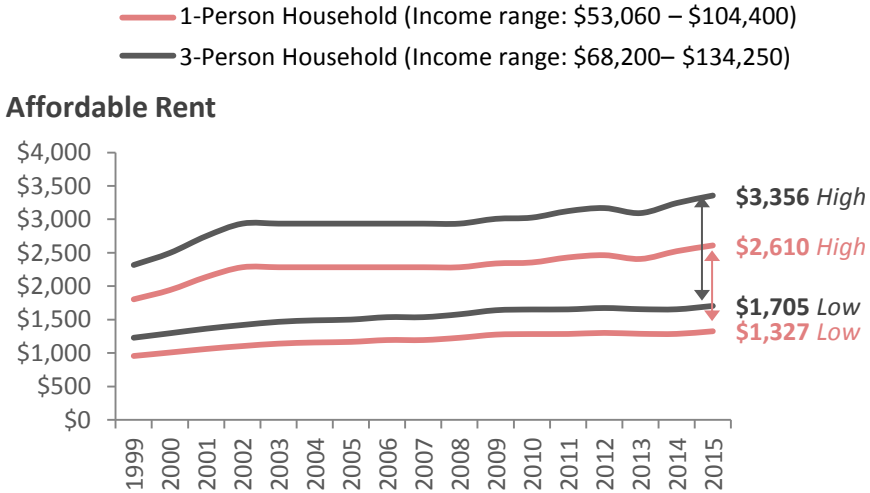
1-person households earning $53,000-$104,000

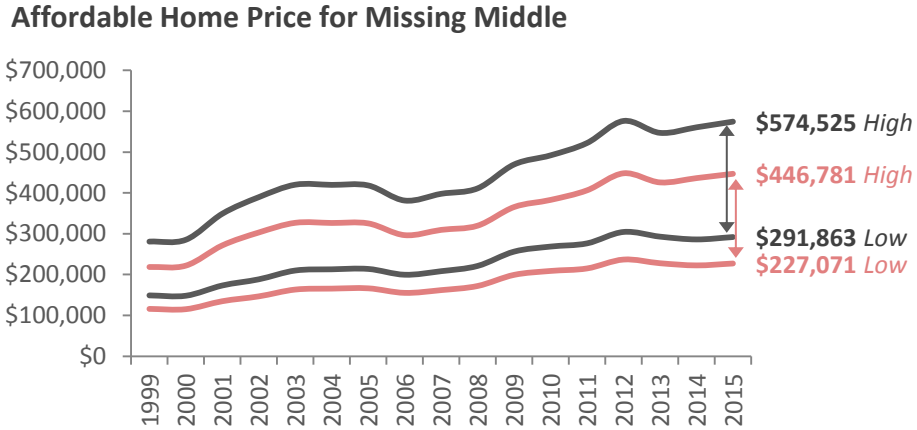
3-person households earning $68,000-$134,000

Percent Households that are Middle Market



WHAT CAN THE MIDDLE MARKET AFFORD?





Falling mortgage interest rates between 2010 and 2015 increased homeownership affordability

EXECUTIVE SUMMARY.

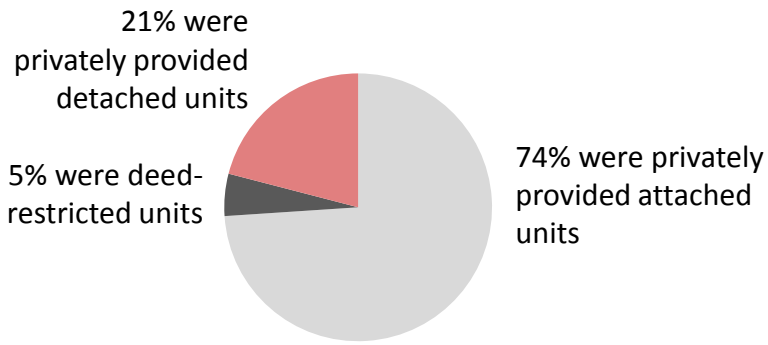
WHAT IS AVAILABLE TO THE MIDDLE MARKET?

99% of city's rentals

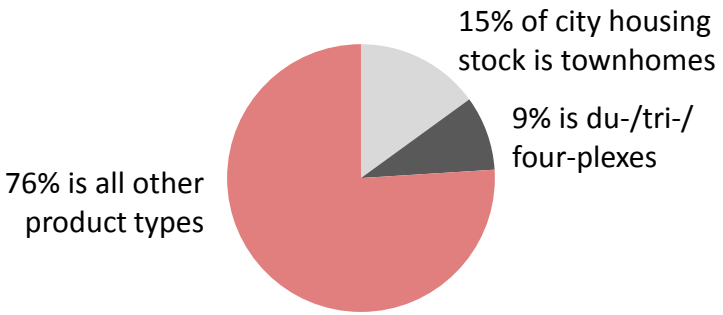
17% of detached homes for sale in 2015, or 72 units, **2** of which are deed-restricted

67% of attached homes for sale in 2015, or 262 units, **15** of which are deed-restricted

Of the 334 homes affordable to Middle Market households in 2015:



Boulder's supply of Missing Middle product types is relatively low:



EXECUTIVE SUMMARY.

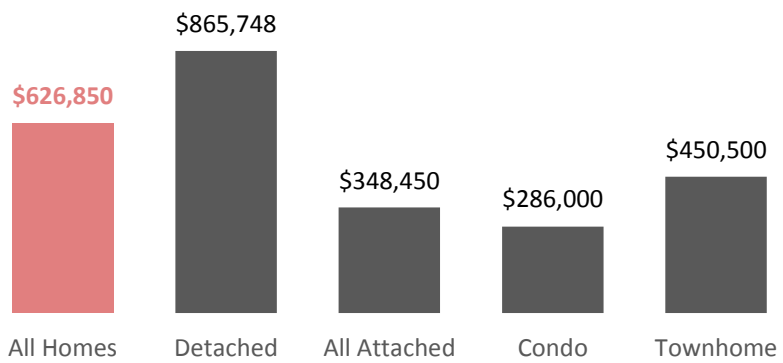
WHAT ARE THE KEY FINDINGS FROM THE MIDDLE MARKET STUDY?

Key Finding No. 1:

Attached homes maintain affordability better than detached homes

- Short term price appreciation is lower—
  Annual increase between 2011 and 2015: **10%** for detached, **7%** for townhomes, **5%** for condos.
- Long term price appreciation is lower—
  Overall increase between 1996 and 2015: **209%** for detached homes v. **138%** for townhomes and condos.

Median price remains lower



This is true even for similarly-sized homes

	Median List/Sold Price				CAGR	
	2000	2005	2011	2015	2000-2015	2011-2015
All homes with 2+ bedrooms and 900+ sq ft	$317,550	$420,000	$489,950	$700,000	5.4%	9.3%
Detached homes with 2+ bedrooms and 900+ sq ft	$372,400	$564,950	$589,900	$869,740	5.8%	10.2%
Attached homes with 2+ bedrooms and 900+ sq ft	$210,000	$285,000	$335,000	$447,000	5.2%	7.5%

EXECUTIVE SUMMARY.

Key Finding No. 2:

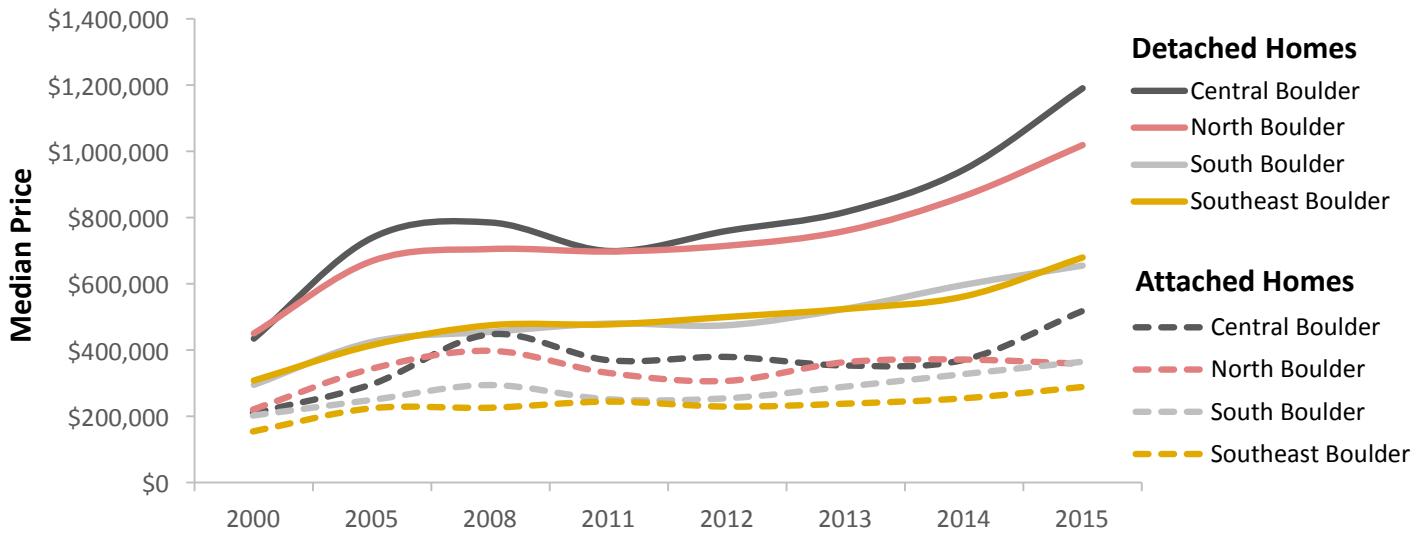
Attached units maintain a lower price even in high-demand areas in Boulder

Central Boulder detached homes sold for a median price of **$1.2 million** in 2015 v. **$522,000** for attached homes.

Key Finding No. 3:

Attached products are less likely to expand in size

The average size of detached homes rose by **700 square feet** between 2000 and 2015, contributing to price increases. Average attached home size rose by just **150 square feet**.



EXECUTIVE SUMMARY.

Key Finding No. 4:

Rentals remain very affordable to the Middle Market and may be the only way to live in Boulder

Although rent levels are at record highs—**$1,861/month** near the University, **$1,505/month** in the balance of the city—**99%** of Middle Market households can afford to rent at market prices.

Historically, Boulder's rental market has offered a range of larger units:

- ***29%*** *of rental units have 3+ bedrooms*
- ***19%*** *of rental units are single family detached homes*

Yet this is changing:

- *The share of rentals most attractive to in-commuters and families—attached products integrated into neighborhoods—is down to* ***31%*** *from* ***33%*** *in 2000*
- *Newly developed rentals in larger complexes are not family-oriented, offering firepits v. playgrounds*

Key Finding No. 5:

Purchasing an attached unit is cheaper than renting at market rates

In-commuters wanting to live in Boulder express a preference for attached products in small structures integrated into neighborhoods v. large multifamily complexes.

In-commuters would much rather buy than rent: only **6%** are willing to make the trade-off of renting in Boulder v. buying outside of Boulder.

For the same monthly expense, a renter in a new Boulder complex could purchase up to **83%** of all two-bedroom attached homes listed for sale in 2015.

Key Finding No. 6:

If all new residential is priced for the Middle Market, affordability would increase significantly.

Currently, 27 percent of the city's owner-occupied homes are affordable to Middle Market households. If all 6,750 of potential new dwelling units were added to the city today, the proportion of owner-occupied homes affordable to Middle Market households would increase to 42 percent.

SECTION I.

Introduction to Middle Market Research

SECTION I. Introduction to Middle Market Research

This report focuses on housing Boulder's middle income households. Its primary purpose is to provide information about which types of housing products are successful in broadening housing options for current and potential middle income residents of the City of Boulder.

Why a Middle Market Housing Study?

A core element of the new Housing Boulder Action Plan for 2015 and 2016 is development of a middle income housing strategy.[1] The aim of the strategy is for the city to better use its regulatory tools and investments to facilitate a richer diversity of housing choices and residential affordability (through new development, redevelopment and the preservation of existing housing).

The decline of middle income households has been a growing concern for Boulder. In 1989, 43 percent of Boulder's households were considered middle income. This proportion held until 1999, after which it began to drop, offset by an increase in high income households. Today, an estimated 37 percent of the city's households are middle income. Middle income households have declined outside of Boulder as well, though the county, region and state have maintained a higher proportion of middle income households.

Middle income households are an important segment of the city's population not only because they have historically been a core part of the Boulder community—but also because they make up a significant part of the city's workforce. Providing middle income housing to Boulder workers within the city helps achieve numerous city goals (e.g., sustainability, carbon reduction, diversity).

Development of the middle income housing strategy involves:

- Determining what the market is currently producing to serve middle income households and how unit size and location affect pricing over time—*This is the purpose of this study;*
- Identifying and evaluating land use changes and other market interventions needed to produce desired middle income housing types (e.g., duplexes and triplexes, townhomes, courtyard apartments, bungalows) and appropriate locations (coordinated with the Comprehensive Plan update)—*This is will occur as part of the Boulder Valley Comprehensive Plan (BVCP) and will be informed by this study;*
- Determining effective mechanisms to support middle income affordability (e.g., shared appreciation models, down payment assistance, preservation of existing housing)—*Development of these mechanisms will be informed by this study;*
- Identifying a methodology to monitor key market indicators to measure progress on Middle Market housing provision; and
- Drafting a middle income strategy based on analysis and additional community input.

[1] www.HousingBoulder.net

SECTION I. Introduction to Middle Market Research

Is This a New Challenge for Boulder?

Providing housing to middle income households, as well as low income households, has always been somewhat of a challenge for Boulder. The community's interest in maintaining economic diversity led Boulder to establish many of the region's first affordable housing programs and policies. In September of 2014, City Council adopted six goals to help guide the development of the housing strategy and one was designed solely on "providing a greater variety of housing choices for middle-income families and Boulder's workforce."

The affordability challenges of Boulder's low and middle income households were less severe before the 1990s—a period of significant population growth for the city and the Denver region overall. Contributing factors were strong in-migration in the region, a recovering economy and a shift in consumer housing preferences toward "lifestyle" communities, such as Boulder. **Between 1990 and 2000, the median value of a home in Boulder increased at a compound annual rate of 8 percent.**

The current, unprecedented rise in prices continues to broaden the demographic of those for whom buying or renting in Boulder is unattainable. **Housing prices in the past two years alone have risen by 31 percent.** Today, the Boulder households most vulnerable to the effects of rapid housing price increases are those who earn too much to qualify for public subsidies, but for whom the median-priced home is out of reach. These households—herein referred to as the Missing Middle, Middle Market or workforce housing—are the subject of this report.[2]

Loss of housing for the Middle Market is also an issue for other cities of high demand. *Governing* magazine recently reviewed the gap in availability of family-sized Middle Market housing in the nation's 25 largest cities. In the top 10 most expensive cities in the U.S., an average of 17 percent of all home listings with 3 or more bedrooms were affordable to families earning the local median family income. This compares to 63 percent in the other 15 cities.

Boulder is slightly more affordable than the 10 most expensive cities in the U.S. but still far more expensive than the other 15 cities included in the *Governing* magazine report. In Boulder, 20 percent of 3-plus bedroom homes for sale were affordable to the median-income four-person household in 2015 (compared to 17% in the most expensive cities and 63 percent in the other 15 cities).

Figure I-1 displays the Governing magazine data for select cities along with Boulder. The figure shows the proportion of two- and three-bedroom homes affordable to 4-person families earning the median income.

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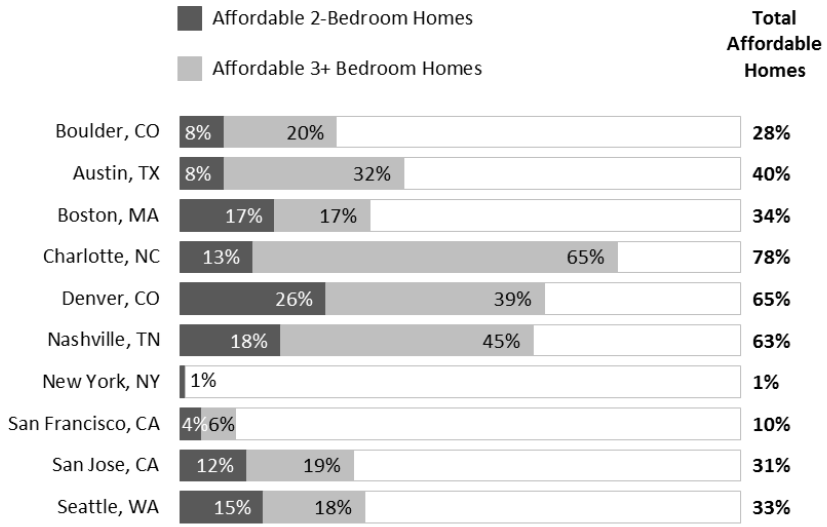
[2] The term Missing Middle was crafted by Daniel Parolek of the planning and design firm Opticos. He uses the term to define a particular residential product type: "multi-unit or clustered housing types" that are compatible in scale with single family homes and which are targeted to help meet a growing demand for "walkable urban living." Many take this definition to be synonymous with middle income households. In many, but not all, markets, Missing Middle products are more affordable than detached single family products. Yet changing market preferences for lower maintenance, walkable residential environments—largely driven by Millennials and Baby Boomers—can make Missing Middle products less affordable.

SECTION I. Introduction to Middle Market Research

Figure I-1.
Comparative Share of Home Listings Affordable to Median Income Families in Boulder and Select Cities in the United States



Source: Governing Magazine, MLS and BBC Research & Consulting.

Who is the Middle Market?

The City of Boulder has a permanently affordable middle-income housing program. This program defines middle income as approximately 80 to 120 percent of the area median income (AMI) in the Boulder region or, for example, a three-person household with an annual income between $68,000 and $104,000 (2015).[3] This program was established as part of the City of Boulder's goal of 450 permanently affordable middle income housing units. This goal was adopted in 2008 as a separate goal in addition to the "10 Percent Goal." Currently, annexation is the city's only path to create permanently affordable middle-income housing.

For the purposes of this report, the Missing Middle is defined as households earning between approximately 80 and 150 percent of AMI. This aligns with the City's income break between Low to Moderate Income and Middle Income (approximately 80% AMI) but increases the maximum income threshold from 120 to 150 percent AMI in order to provide a more comprehensive view of households that may consider themselves to be "middle class."

Previous Housing Boulder reports have explored other definitions of middle income households including income breaks of $50,000 to $150,000 and $65,000 to $150,000. This report strikes a balance between the higher threshold used in those reports and the lower threshold of Boulder's current middle income housing programs. This report focuses on the household types that are most common in Boulder: 1- and 3-person households.

MIDDLE MARKET

1-person households earning $53,060-$104,400

3-person households earning $68,200-$134,250

[3] AMI is calculated by HUD annually and is adjusted by household size. It is based on the median income of a 4-person household, as determined by household surveys conducted by the U.S. Census.

SECTION I. Introduction to Middle Market Research

What Happens When the Middle Market Can't Afford Housing?

The most obvious effect of housing prices being out of reach for workers is more in-commuting—and more traffic.

This can also lead to a shift in certain household types. Families, for example, may be economically motivated to live in more affordable communities to help manage the costs of raising children (child care, activities, saving for college). This shift has not yet occurred in Boulder; instead, the proportion of families has remained the same, but families are more likely to be high income.

Organization of Report

The remainder of this report is organized as follows:

- Section II. Middle Market Housing Products begins with a discussion of the demographics of Boulder's Middle Market households. It introduces the products that have been and are currently affordable to Middle Market households.
- Section III. Middle Market Price Trends and Affordability provides an in-depth analysis of ownership and rental affordability for Middle Market households within Boulder—what types of homes were once affordable, what is affordable now, where affordable homes are located and what's missing from the market.
- Section IV. Impacts of Middle Market Development discusses if and how an infusion of Middle Market products could contribute to Boulder's affordability.

Data limitations. This report relies heavily on data from the multiple list service (MLS), the Metro Denver Vacancy and Rent Survey, the U.S. Census and the American Community Survey (ACS). Some limitations of those data include:

- Using MLS data focuses the ownership-related findings on what the market offers buyers at a given time, not what it contains as a whole. The benefit is that MLS data provide the best measure of what potential buyers could actually find on the current market. However, it may not provide a perfect representation of all existing homes in the city. MLS data also include a lower sample of homes to analyze than data on all homes in the city. The primary alternative to MLS data is assessor's data which does include data on all homes in the city, not just those being listed/sold. However, historical assessor's data were not available for this project due to reporting issues currently being addressed by the Boulder County Assessor's Office.
- The Metro Denver Vacancy and Rent Survey does not include rental information on single family rentals. Unfortunately, the counterpart Single Family Housing Vacancy and Rent Survey was discontinued in early 2014. Neither survey provide detailed information on the distribution of rents in Boulder; instead the data focus on average and median rents as well as vacancy rates.
- The ACS reports more detail on rental distribution and offers more rental cross-tabulations than the vacancy survey. However, the lag between data collection and release means the most recent 3-year ACS data available are the 2011-2013 3-year estimates.

SECTION I. Introduction to Middle Market Research

- There are no available data sources that include non-structural design features which characterize many Missing Middle housing products (design style, orientation, community integration, etc.) and impact both desirability and affordability. As such, the study team relied on reported structural characteristics (e.g., size of unit and number of units in a building) as a proxy for style when possible.

SECTION II.

Middle Market Housing Products

SECTION II. Middle Market Housing Products

Who are Boulder's Middle Market Households?

In the spring of 2015, a "Maintain the Middle" fact sheet was compiled for Housing Boulder which described middle income households in detail. This fact sheet examined trends in middle income households—their types, age distribution and overall proportion in the city. In 1989, 43 percent of Boulder's households were considered middle income. This proportion held until 1999, after which it began to drop, offset by an increase in high income households. An estimated 37 percent of the city's households are middle income today (see Figure II-1).

Figure II-2 displays the proportion of middle income households in Boulder to the county, state and nation between 1989 and 2013. Statewide, the proportion of households that are middle income declined by 3 percentage points between 1989and 2013 (from 47 percent to 45 percent), compared to a 6 percentage point decline in the City of Boulder. Boulder County actually shows the steepest decline in middle income households over the period but still maintains a higher proportion of middle income households than the city. It should also be noted that city data are included in county estimates.

Figure II-1.
Middle Income Trends, City of Boulder, 1989 to 2013

	Low to Moderate Income	Middle Income	High Income
1989	47%	**43%**	11%
1999	42%	**43%**	15%
2009-2011	47%	**37%**	16%
2011-2013	46%	**37%**	17%
Trend	Steady	**Down**	Up

Note: In the Maintain the Middle Fact Sheet, middle income was defined as households earning between $50,000 and $150,000.

Source: Housing Boulder Maintain the Middle Fact Sheet and BBC Research & Consulting.

Figure II-2.
Middle Income Households, City, County, State and Nation, 1989 to 2013

	City of Boulder	Boulder County	State of Colorado	United States
1989	43%	51%	47%	46%
1999	43%	50%	50%	46%
2009-2011	37%	43%	46%	43%
2011-2013	37%	44%	45%	42%
Difference	-6.3%	-7.5%	-2.6%	-4.6%

Note: In the Maintain the Middle Fact Sheet, middle income was defined as households earning between $50,000 and $150,000.

Source: Housing Boulder Maintain the Middle Fact Sheet, 1990 and 2000 Census, 2009-2011 and 2011-2013 ACS and BBC Research & Consulting.

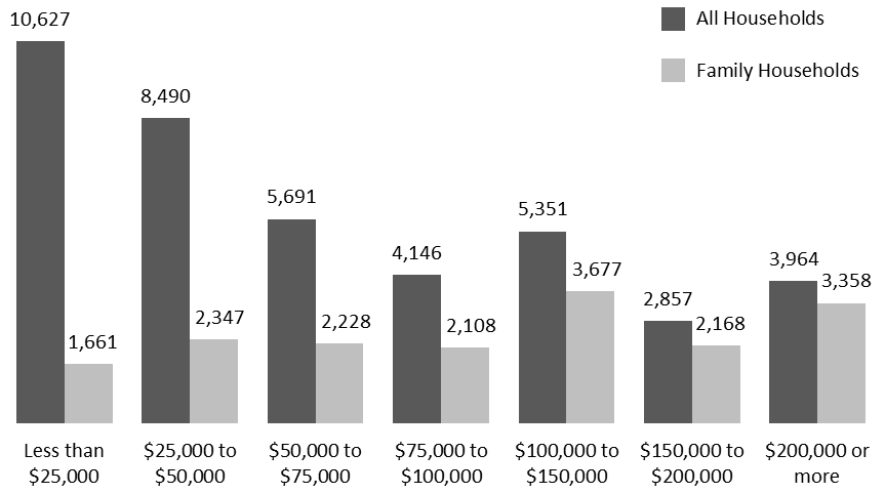
SECTION II. Middle Market Housing Products

Just over half (53%) of the city's middle income households are defined as families according to the U.S. Census. (The Census defines a family as two or more people—one of whom is the householder—related by birth, marriage, or adoption residing in the same housing unit. This definition excludes same sex couples and unmarried partners and as such, in some communities, under-represents families).

Twenty percent of Boulder's middle income households are families with children. Overall, just 19 percent of all Boulder households include children—similar to the proportion of households with children in San Francisco, Washington DC and Seattle which have some of the lowest shares of children among large cities.[1] In Denver, about one quarter of all households include children.

Figure II-3 displays all households and family households by income for the City of Boulder. Family households are more likely to be middle income than households overall. That said, family households in Boulder skew toward higher income brackets, while all households skew toward lower income brackets (likely the result of students living in the community).

Figure II-3.
Income by Household Type, City of Boulder, 2013



Note: Household income reported is for the previous full calendar year.

Source: Housing Boulder Maintain the Middle Fact Sheet and BBC Research & Consulting.

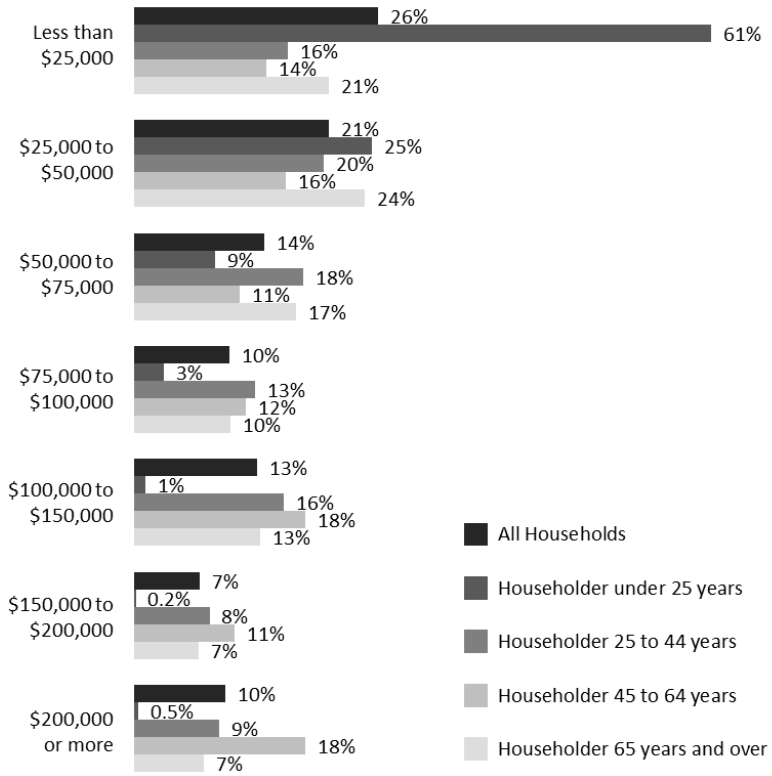
Figure II-4, on the following page, displays household income by age. Middle income households are slightly more likely to be headed by householders aged 25 to 44. Of households earning between $50,000 and $150,000, 44 percent are headed by householders between 25 and 44 years old, compared with 8 percent for under 25 years and 33 percent for 45 to 64 years.

[1] Maciag, Mike. "No Room in the City." *Governing Magazine*. November 2015, 25-30.

SECTION II. Middle Market Housing Products

Similarly, 47 percent of householders between the ages of 25 and 44 have incomes between $50,000 and $150,000, compared to 13 percent of householders under 25 years and 41 percent of householders over 45 years.

Figure II-4.
Household Income by Age of Householder, City of Boulder, 2013



Source: Housing Boulder Maintain the Middle Fact Sheet (2013 5 year ACS) and BBC Research & Consulting.

Middle income households hold key employment positions in Boulder. According to the Bureau of Labor Statistics Occupational Employment Statistics, 42 percent of Boulder employees are in industries with average or median wages that fall in the Middle Market income range. These employment categories include the following:

Employment Categories

- Accountants and Auditors
- Chemical Engineers
- Clinical Counseling and School Psychologists
- Computer Programmers
- Dental Hygenists
- Economists
- Industrial Engineers
- Landscape Architects
- Librarians
- Physician Assistants
- Registered Nurses
- Special Education Teachers, Secondary School
- Technical Writers
- Veterinarians
- Web Developers

SECTION II. Middle Market Housing Products

Which Housing Products are Key to Maintaining Middle Market Households in High Cost Cities?

Missing Middle product analyses generally focus on new housing types that are needed to help meet demand for workforce or middle income housing. In reality, in most cities, existing housing—generally older (but not historical), modest products provide the largest share of housing to the middle class.

These products make up much of the residential housing stock in the Intermountain West. For example, 61 percent of Boulder's housing stock was built in the 60s, 70s and 80s. Homes built in those decades now offer some of the lowest home prices and rents in Boulder, particularly homes built in the 1970s and 1980s (see Figure II-5).

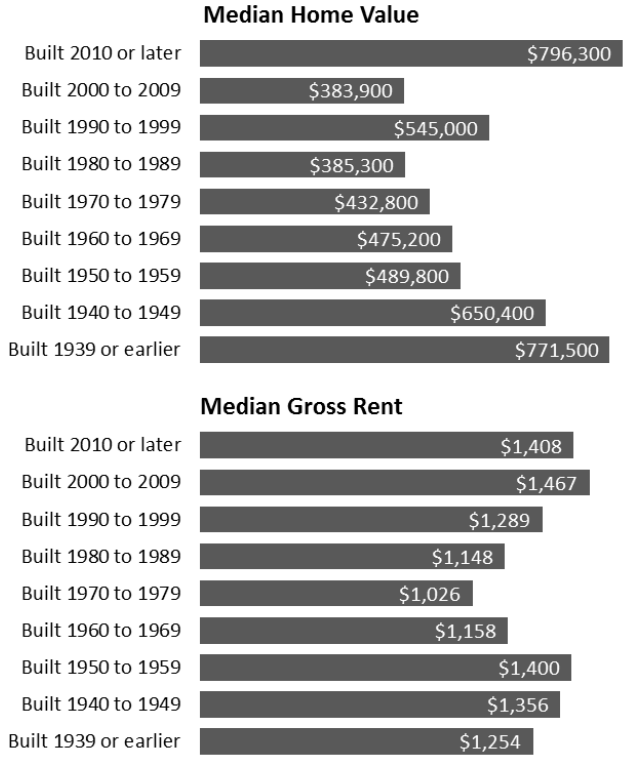
Figure II-5. Median Values and Gross Rents by Year Built, City of Boulder, 2013

Note:

Median value and median gross rent in the ACS are self-reported and as such, likely include deed-restricted units and rent subsidies.

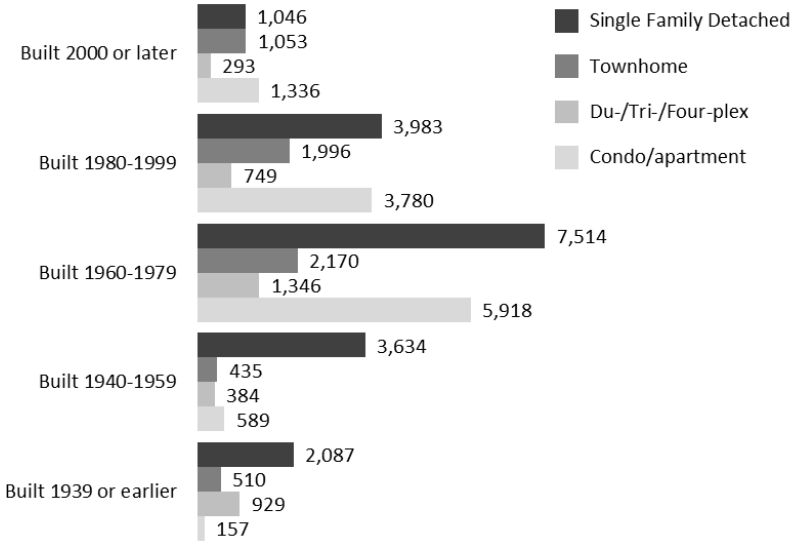
Source:

2009-2013 ACS.



As shown in Figure II-6, prior to 1980, home construction focused largely on single family detached dwellings. Since 1980, just over a third of newly constructed homes were single family detached.

Figure II-6. Year Built by Product Type, City of Boulder, 2013



Source: 2009-2013 ACS.

SECTION II. Middle Market Housing Products

In general, there are two types of products that serve Middle Market households:

- "Intentional" products—those that targeted middle income and workforce households when they were developed. They may have been subsidized through density bonuses, land donations or grants and loans to achieve their affordability.
- "Non-intentional" products—those that have maintained relative affordability because of lower demand. These were developed to be market rate products when built. Their appreciation has been more modest than the market overall, retaining their affordability to middle income households.

Which does Boulder have—and not have? Although data describing each specific Missing Middle product type are not available, the ACS does provide data to describe the primary types of housing stock in the city. As shown in Figure II-7 on the following page, 41 percent of Boulder's housing stock is detached, 52 percent is attached and 7 percent is mobile homes. Large condo/apartment buildings are the most common attached product (28%) followed by townhomes (15%) and du-/tri-/fourplexes (9%).

Affordability and demand are discussed in more detail in Section III, but simply based on product type, Boulder appears to have a relatively low supply of small structure attached units—townhomes, duplexes, triplexes and fourplexes. In the 2014 Housing Choice Survey, middle income in-commuters expressed the strongest preference for those types of attached units in the city as an alternative to living in detached homes outside the city.

Intentional product types:

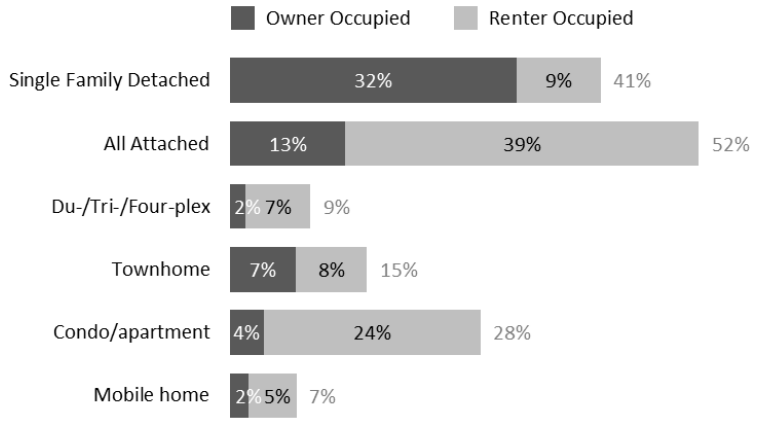
- Very small lot homes between 1,500 and 1,800 sq. ft. Includes cottage or courtyard homes. Example: Iris Hollow.
- Multiplex/reuse of existing structure. Example: Washington Village.
- Townhouse—newer, good size (1,200-1,500 sq. ft. with small private space). Example: Steelyards.
- Non-luxury condos. Example: Holiday.
- Co-housing.

Non-intentional product types:

- Older, small (1,500-1,800 sq. ft.) single family detached homes having some limitations—need rehabilitation, poor location, awkward layout, etc.—were traditional starter homes that may not be out of reach for middle market and now priced for lots/investors.
- Older attached units with limitations—poor noise control, bad design, poor location. Students potentially better occupants.

SECTION II. Middle Market Housing Products

Figure II-7.
Housing Stock by Type, City of Boulder, 2013



Source: 2011-2013 ACS and BBC Research & Consulting.

Where Do Boulder's Middle Market Households Live?

About 43 percent of Middle Market households live in rental units and the other 57 percent own their homes. These Middle Market households—both renters and owners—live throughout the city, although the Census tracts in the northern (owners) and central (renters) areas of the city have the highest numbers of Middle Market households.

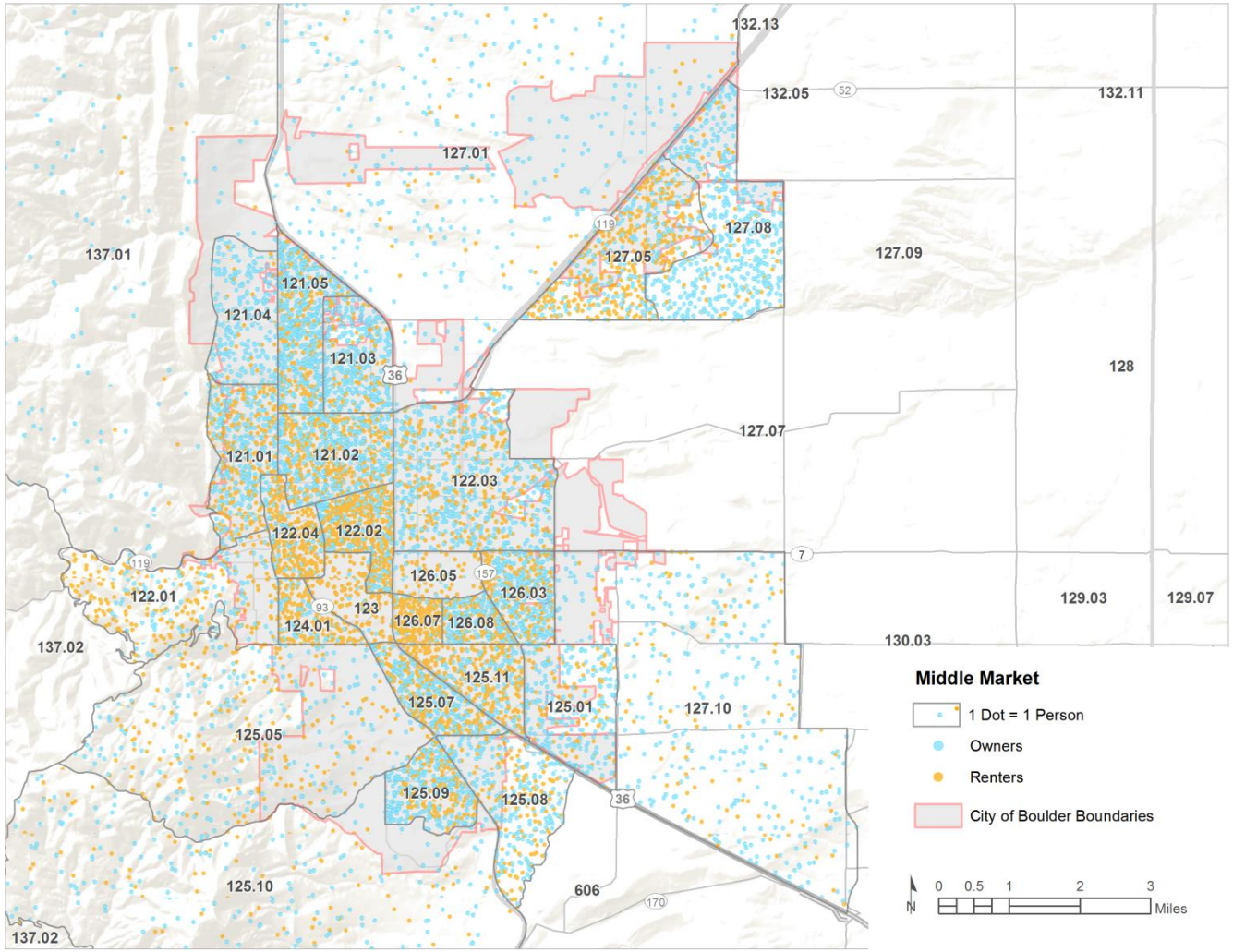
Figures II-8 through II-11 display the number and proportion of Middle Market households by Census tract. The maps emphasize that middle income residents live in many parts of the city, though owner opportunities for the middle income tend to vary more by neighborhood than do renter opportunities.

SECTION II. Middle Market Housing Products

Figure II-8.
Middle Market Owners and Renters

Source:

2009-2013 ACS and BBC Research & Consulting.

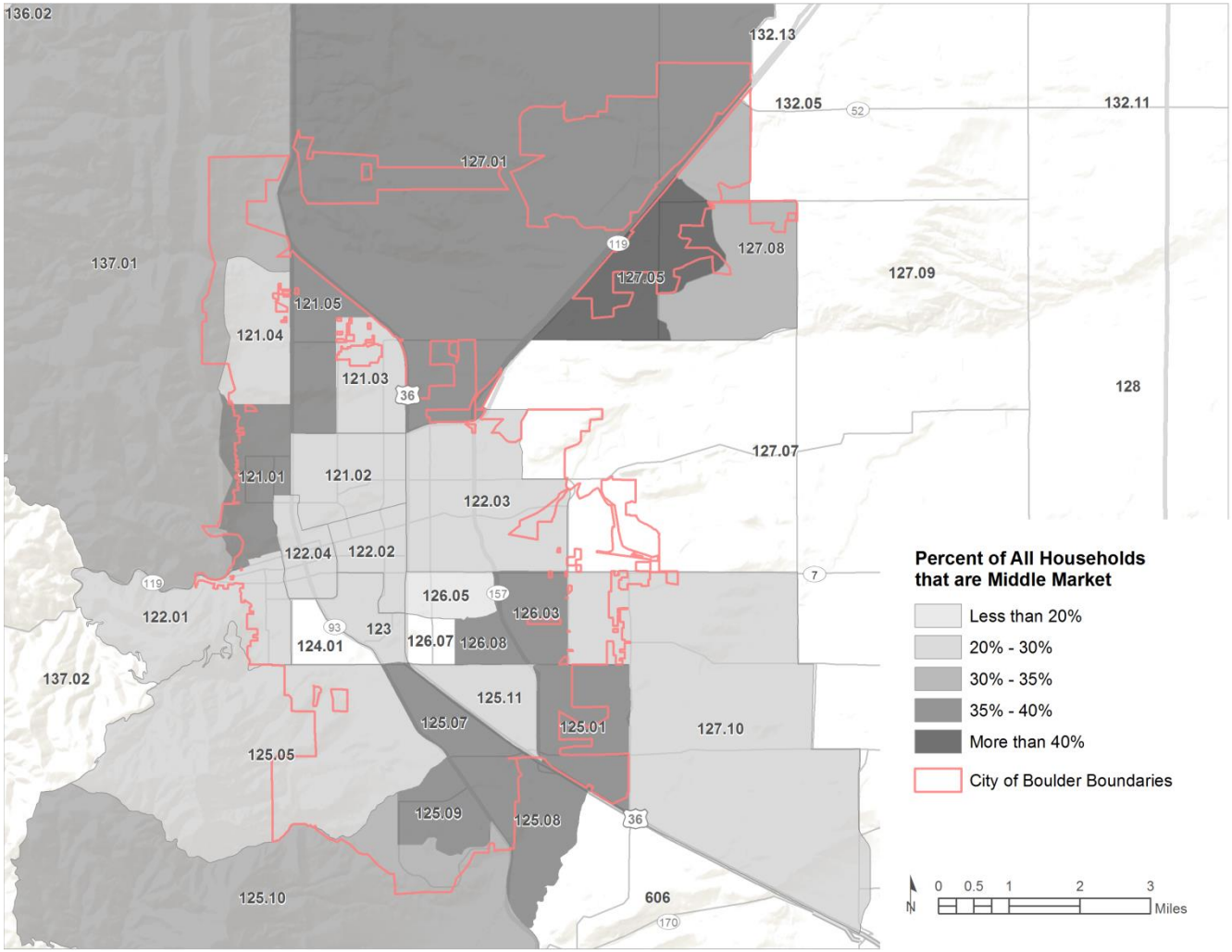


SECTION II. Middle Market Housing Products

Figure II-9.
Percent of All Households that are Middle Market

Source:

2009-2013 ACS and BBC Research & Consulting.

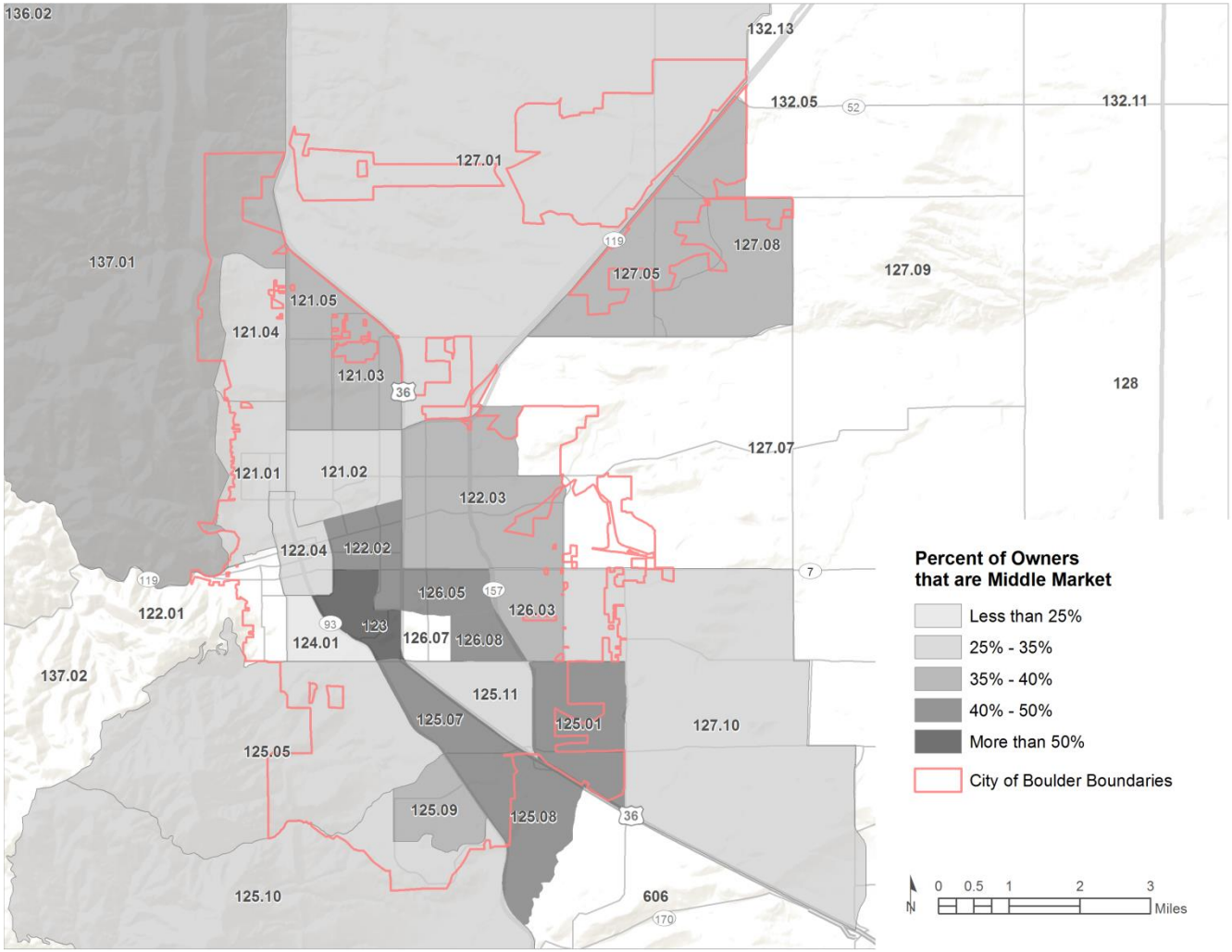


SECTION II. Middle Market Housing Products

Figure II-10.
Percent of Owners that are Middle Market

Source:

2009-2013 ACS and BBC Research & Consulting.

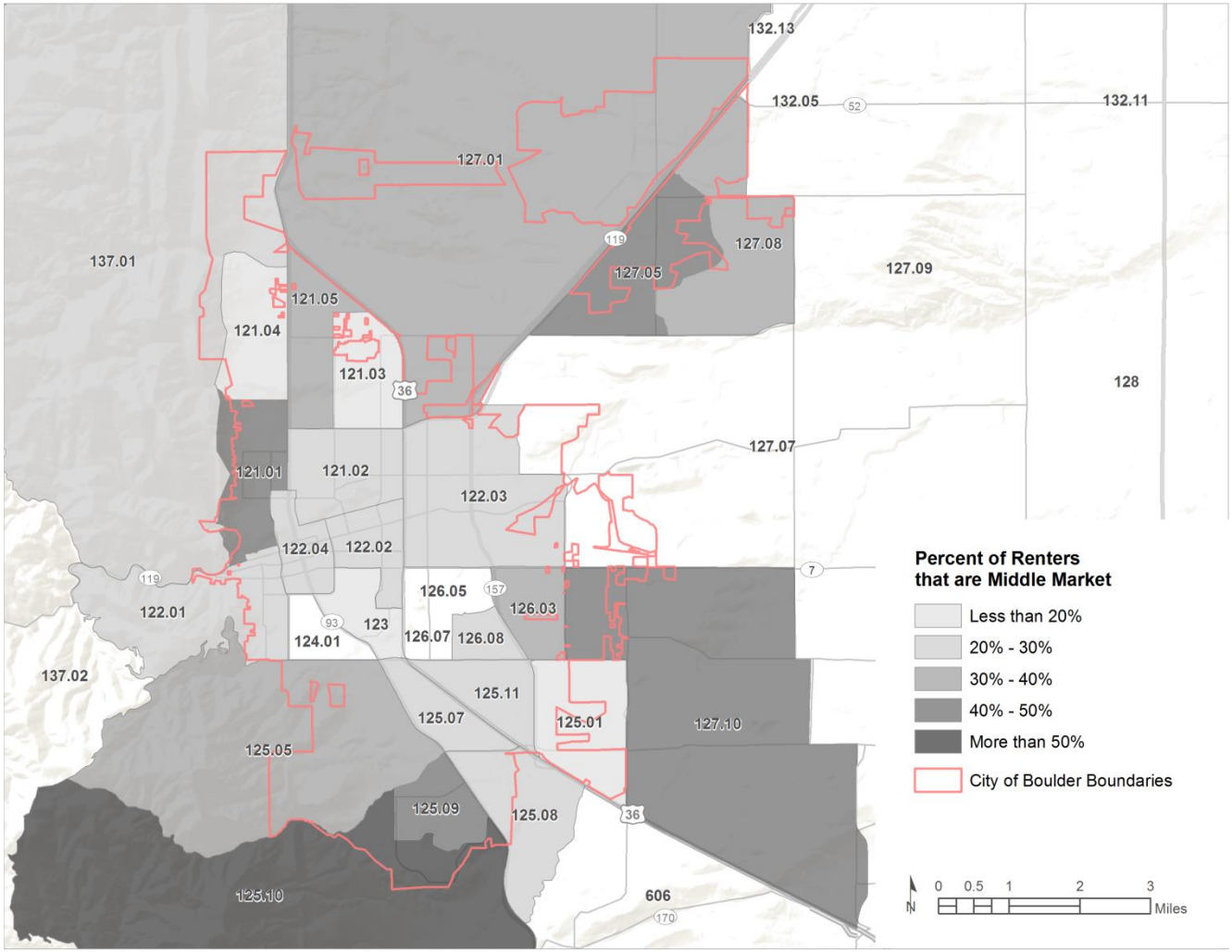


SECTION II. Middle Market Housing Products

Figure II-11.
Percent of Renters that are Middle Market

Source:

2009-2013 ACS and BBC Research & Consulting.



SECTION II. Middle Market Housing Products

What Can Middle Market Households Afford?

Figure II-12 displays affordability ranges for Middle Market households—those earning between about 80 percent and 150 percent of AMI. As noted previously, this report focuses on the household types that are most common in Boulder: 1- and 3-person households.

Affordable rent for a 1-person Middle Market household ranges from $1,327 to $2,610 and an affordable home price ranges from $227,071 to $446,781.

A 3-person Middle Market household could afford between $1,705 and $3,356 for rent and a home priced between $291,863 and $574,252.

Affordable rents shown in the figure include utilities and affordable home prices shown in the figure are based on a 30-year fixed rate mortgage with a 5 percent down payment, an interest rate of 4.25 percent and the assumption that 20 percent of the monthly payment would collectively go toward private mortgage insurance, utilities and property taxes.

As Figure II-13 on the following page demonstrates, what Middle Market households can afford has changed only modestly since 1999—except for in recent years, due to post-recession interest rates.

Figure II-12.
Middle Market Income and Affordable Housing Costs, City of Boulder, 2015

	1-Person Middle Market Household	3-Person Middle Market Household
Income Range (80-150% AMI)	$53,060 - $104,400	$68,200 - $134,250
Affordable Rent	$1,327 - $2,610	$1,705 - $3,356
Affordable Home Price	$227,071 - $446,781	$291,863 - $574,525

Note: Affordable home price assumes a 30 year fixed rate mortgage with a 5 percent down payment, an interest rate of 4.25 percent and the assumption that 20 percent of the monthly payment would collectively go toward private mortgage insurance, utilities and property taxes. The model does not incorporate additional assumptions regarding personal finances such as current debt, wealth or financial assistance from friends or family.

Source: HUD and BBC Research & Consulting.

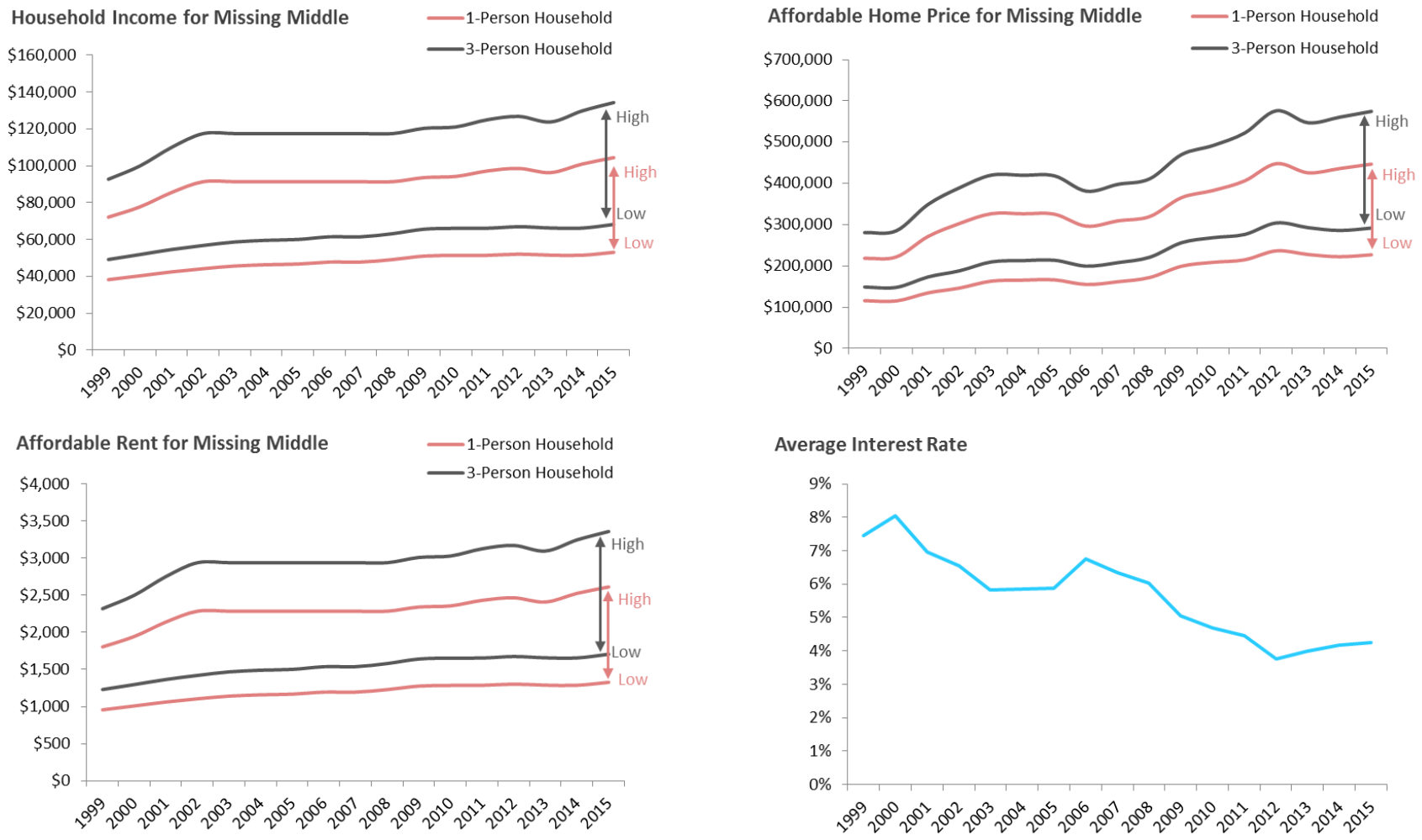
The maximum affordable rent Middle Market households can afford increased from $957 in 1999 for a 1-person household earning about 80 percent AMI to $1,327 in 2015. For a 3-person household, the affordable rent increased from $1,230 to $1,705.

Maximum home prices affordable to Middle Market households increased much more dramatically, particularly in 2012, due to changes in interest rates.

The analysis of Middle Market affordability continues in Section III, which examines market offerings for both for sale and rental products in Boulder. That analysis reveals that attached products are crucial to maintaining Middle Market home purchase opportunities in the City of Boulder.

SECTION II. Middle Market Housing Products

Figure II-13.
Middle Market Income and Affordable Housing Costs, City of Boulder, 1999-2015



Source: Interest rates from Freddie Mac and CHFA; income range based on HUD and City of Boulder data. Analysis by BBC Research & Consulting.

SECTION II. Middle Market Housing Products

If We Build It, Will They Come?

Living in attached housing—particularly for families—is still a relatively new idea for Western cities, even in high-cost areas. For example, the City of Los Angeles is one of the least affordable cities in the U.S. Yet its housing types skew toward less affordable single family detached homes: about 80 percent of homeowners in L.A. occupy single family detached homes. This compares to 68 percent in Boulder.

The Housing Choice survey completed of Boulder residents and workers in 2014 revealed some surprising findings about the trade-offs residents have made—or are willing to make—to live in Boulder:

- In-commuters willing to live in attached products in Boulder v. a detached home in another community are generally lower income ($25,000 and $65,000) and single. These are the 1-person Middle Market households described in this section.
- Townhomes, followed by smaller complexes, are a clear preference for these workers willing to make tradeoffs for attached homes: 74 percent would live in a townhome and 62 percent would live in a du-/tri-/fourplex.
- High income commuters are least likely to make the attached product trade off. Townhomes are the only product of moderate interest to this demographic.
- Having private space or a shared garden is a strong preference of those making the attached housing trade off. A balcony or deck is much less desirable. More important, however, is being located near open space or trails.
- Some residents would prefer living in a mobile home to living in attached housing in Boulder. This is particularly true of new immigrants and large families renting mobile homes in Boulder. These workers would rather move outside of Boulder to buy than purchase an attached home within the city.

SECTION III.

Missing Middle Price Trends and Affordability

SECTION III. Missing Middle Price Trends and Affordability

This section provides an in-depth analysis of ownership and rental affordability for Middle Market households within Boulder—what types of homes were once affordable, what is affordable now, where affordable homes are located and what's missing from the market. The section begins with a trend analysis of median home values then discusses the availability and characteristics of homes priced for the middle market. The section concludes with an analysis of the rental market.

Ownership Analysis

Ownership opportunities in the City of Boulder have shifted away from Middle Market households toward higher income residents over the past several decades. During this period of rising prices, Boulder has maintained some affordable purchase options through alternative ownership products, such as deed-restricted and attached homes. Some of these products were built as affordable, i.e., deed-restricted homes. Others are affordable because they are attached homes.

The analysis of ownership affordability for Middle Market households indicates that attached products have maintained more affordability over time—and that opportunities for Middle Market ownership are increasingly limited to attached products and specific neighborhoods.

Trends in median value. According to the Census, the median value of owner-occupied homes in 1980 in Boulder was $133,000. By 1990, this had *dropped* to just $123,000.

A household wanting to buy the median-value home in 1980 needed to earn $67,000. In 1990, a household wanting to buy the median-value home needed to earn $52,000.[1]

Since that time, home prices in Boulder have increased substantially resulting in declining affordability for middle income households. For example, single family detached homes in Boulder's Wonderland Hills neighborhood initially sold for between $150,000 and $200,000. This was an affordable price for a household earning around $66,000.[2] These same homes now sell for more than $1 million and are affordable only to those earning nearly $300,000, or just 5 percent of Boulder's households.[3]

Market data on median home values in Boulder, shown in Figure III-1 on the following page, reveal two primary periods of steep appreciation over the past 20 years: the late nineties through early 2000s and 2012 to the present.

As indicated by the figure, all home prices rose, but attached products were able to maintain more affordability for Boulder buyers. Over the entire period shown, single family detached homes increased in value by 209 percent and attached homes (condos and townhomes) increased by 138 percent.

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[1] According to data from Freddie Mac, the average interest rate on a 30-year fixed-rate mortgage was 12.43% in 1980 and 10.13% in 1990. http://www.freddiemac.com/

[2] Assumes 8.85% interest (1977 rate according to Freddie Mac) on a $175,000 home.

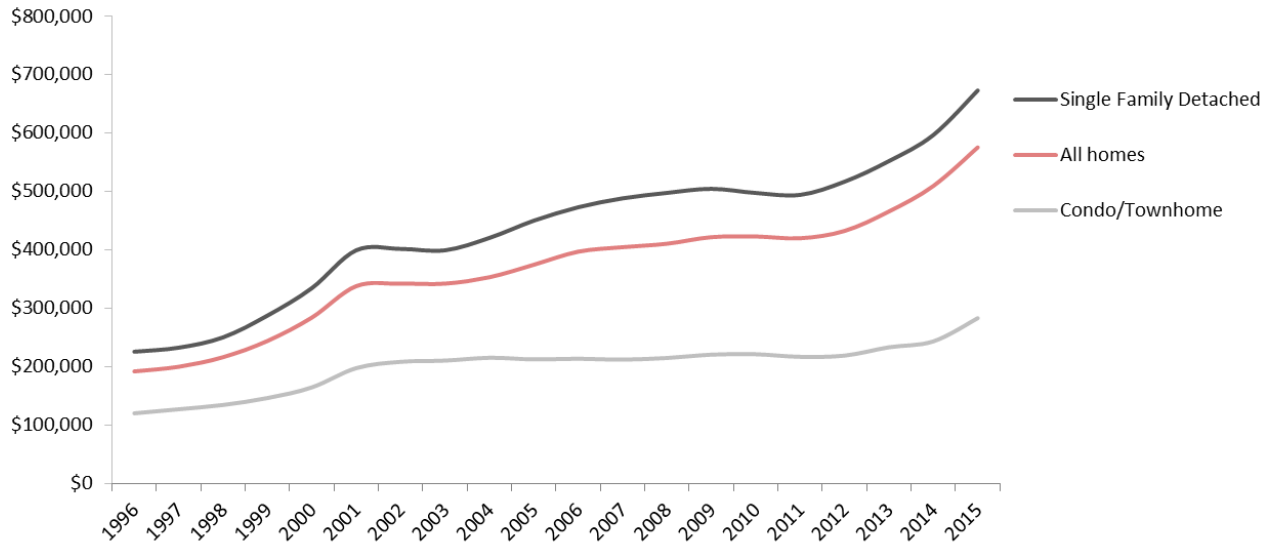
[3] $1.25 million home affordable to household earning $292,089 at 4.25% interest.

SECTION III. Missing Middle Price Trends and Affordability

Figure III-1. Home Values, City of Boulder, 1996-2015

Source:

Zillow Home Value Index and BBC Research & Consulting.

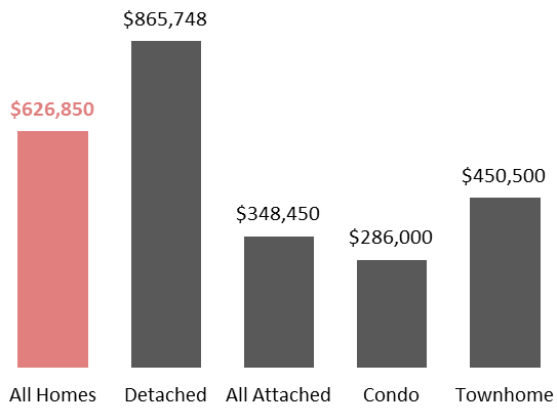


Trends in price. In 2015, the median price of all homes listed for sale or sold in Boulder was $626,850. This is above the affordability threshold for a 3-person Middle Market household, as was the median price for detached homes at $865,748. The median price for attached homes was $348,450, well below the Middle Market affordability ceiling. Figure III-2 shows 2015 median price by type in Boulder.

Figure III-2. Median Price of Homes Listed or Sold in Boulder, 2015

Source:

MLS and BBC Research & Consulting.

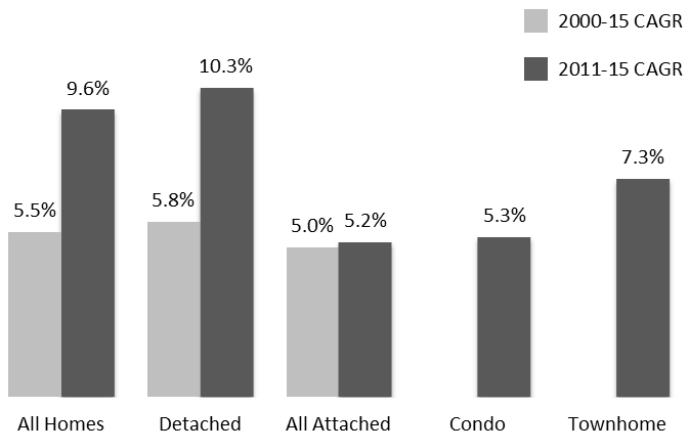


SECTION III. Missing Middle Price Trends and Affordability

Figure III-3 shows the compound annual growth rates (CAGR) for each housing type between 2000 and 2015 and between 2011 and 2015. In both periods, the price of single family detached homes increased faster than all attached products.

Specifically, between 2011 and 2015, detached products increased by about 10 percent per year while townhomes increased by 7 percent per year and condos increased by 5 percent per year.

Figure III-3.
Compound Annual Growth Rates of Homes Listed or Sold in Boulder, 2000-2015 and 2011-2015



Note: Price data for individual attached types (i.e., condos and townhomes) were not available in 2000; as such CAGR for 2000 to 2015 could not be calculated.

Source: MLS and BBC Research & Consulting.

When the data are limited to attached homes that feel more like detached homes—those with at least two bedrooms and 900 square feet—attached products continue to maintain their affordability. As shown in Figure III-4, detached homes held higher prices and higher annual appreciation than the larger attached homes.

Figure III-4.
Median Price and CAGR of Similarly Sized Homes Listed or Sold in Boulder, 2000-2015

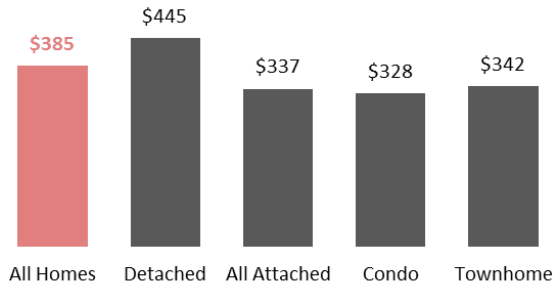
	Median List/Sold Price				CAGR	
	2000	2005	2011	2015	2000-2015	2011-2015
All homes with 2+ bedrooms and 900+ sq ft	$317,550	$420,000	$489,950	$700,000	5.4%	9.3%
Detached homes with 2+ bedrooms and 900+ sq ft	$372,400	$564,950	$589,900	$869,740	5.8%	10.2%
Attached homes with 2+ bedrooms and 900+ sq ft	$210,000	$285,000	$335,000	$447,000	5.2%	7.5%

Source: MLS and BBC Research & Consulting.

SECTION III. Missing Middle Price Trends and Affordability

Trends in price per square foot. Similar trends are evident when considering median price per square foot. As shown in Figure III-5, the median price per square foot is highest for detached homes ($445), followed by townhomes ($342) and then condos ($328).

Figure III-5. Median Price per Square Foot of Homes Listed or Sold in Boulder, 2015

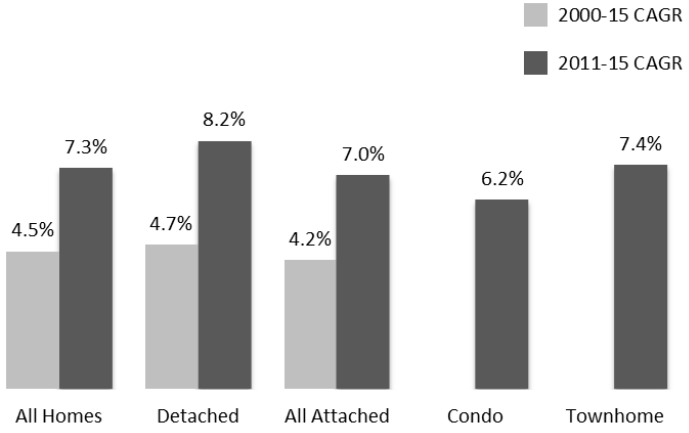


Source:

MLS and BBC Research & Consulting.

Not only do attached products offer a lower price-point at purchase, but they are also more likely to hold affordability across time. As shown in Figure III-6, between 2011 and 2015, detached home prices rose 8.2 percent per year, compared to a 7.0 percent increase for attached homes.

Figure III-6. Compound Annual Growth Rates of Homes Listed or Sold in Boulder, 2000-2015



Note: Price data for individual attached types (i.e., condos and townhomes) were not available in 2000; as such CAGR for 2000 to 2015 could not be calculated.

Source: MLS and BBC Research & Consulting.

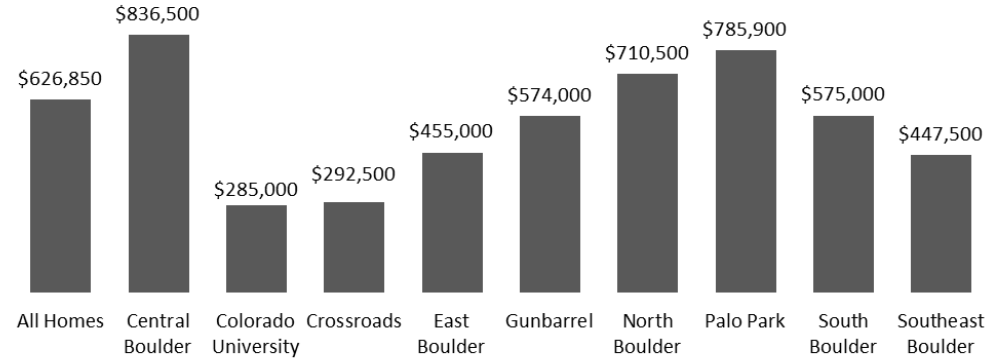
SECTION III. Missing Middle Price Trends and Affordability

Price trends by neighborhood. In addition to product type, neighborhood is a significant factor driving price differences in Boulder's for-sale market. Figure III-7 displays the median price and median price per square foot by neighborhood in Boulder for 2015, along with compound annual growth rates for each neighborhood from 2000 to 2015 and from 2011 to 2015.

Central Boulder has the highest median price at $836,500—over half a million dollars more than the median price in the Crossroads and Colorado University neighborhoods.

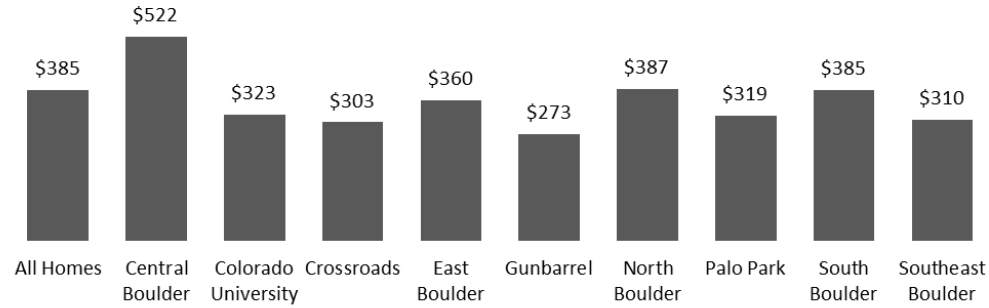
Figure III-7.
Median Price and Price per Square Foot of Homes Listed or Sold in Boulder by Neighborhood, 2015

Median Price



CAGR	All Homes	Central Boulder	Colorado University	Crossroads	East Boulder	Gunbarrel	North Boulder	Palo Park	South Boulder	Southeast Boulder
2000-15	5.5%	5.4%	3.1%	5.0%	4.9%	5.9%	3.8%	8.3%	4.9%	4.6%
2011-15	9.6%	7.4%	-2.5%	14.1%	7.2%	11.2%	6.6%	14.8%	8.5%	7.9%

Median Price per Square Foot



CAGR	All Homes	Central Boulder	Colorado University	Crossroads	East Boulder	Gunbarrel	North Boulder	Palo Park	South Boulder	Southeast Boulder
2000-15	4.5%	5.0%	3.4%	4.3%	4.5%	3.3%	4.2%	3.7%	3.9%	3.7%
2011-15	7.3%	8.2%	3.7%	11.0%	8.3%	6.2%	6.1%	4.9%	5.9%	6.5%

Note: Analysis excludes deed restricted units. 2015 data are year-to-date through Q3.

Source: MLS and BBC Research & Consulting.

SECTION III. Missing Middle Price Trends and Affordability

Figure III-8 shows the differences in price and price per square foot for attached and detached products in four of Boulder's key neighborhoods. Dashed lines represent attached product prices and solid lines represent detached product prices.

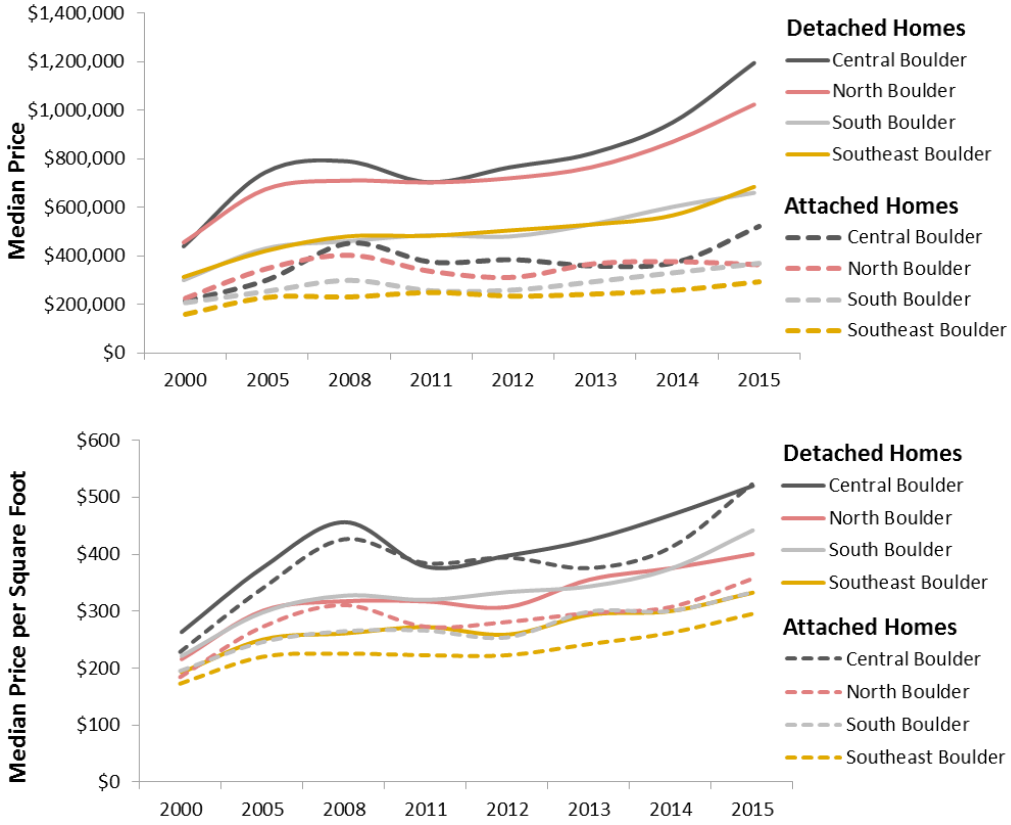
As the graphic shows, attached products have consistently had much lower medians than detached products. In Central Boulder, for example, attached products sold for $215,000 in 2015, compared to $434,500 for detached homes.

Examining the data by price per square foot tells a different story. In Central Boulder, price per square foot of attached properties passed that of detached in 2015 ($523 and $522 respectively). On a per square foot basis, attached prices in Central Boulder actually increased at a faster rate over the period as a whole (5.7% CAGR, compared to 4.6% CAGR).

However, in the other three neighborhoods (North, South and Southeast Boulder) prices for attached homes remained lower than prices for detached homes and annual growth rates for attached products were below or similar to detached properties. Especially in these neighborhoods, attached products still provide more affordability than detached products.

In highly desirable locations in Boulder, attached products maintain their affordability due to their relatively smaller size.

Figure III-8.
Median Price and Median Price per Square Foot of Detached and Attached Homes Sold in Four Key Boulder Neighborhoods, 2000-2015



Note: Dashed lines represent attached product prices and solid lines represent detached product prices. Analysis excludes deed restricted units. 2015 data are year-to-date through Q3.

Source: MLS and BBC Research & Consulting.

SECTION III. Missing Middle Price Trends and Affordability

Homes priced for the Middle Market. In 2000, half of all homes listed or sold in Boulder were priced for the Middle Market. Sixty-eight percent of those were attached products.

By 2015, only 38 percent of market-rate homes were priced for the Middle Market. Including deed restricted homes brings that proportion up to 40 percent. Over three quarters of Middle Market homes in 2015 were attached products.

Figure III-9.
Number and Proportion of Middle Market Homes Listed or Sold in Boulder, 2000 and 2015

	Total		Detached		Attached	
	2000	2015	2000	2015	2000	2015
All homes for sale	1,506	828	860	435	646	393
Priced for Middle Market	754	334	239	72	515	262
Market rate	751	317	237	70	514	247
Deed restricted	3	17	2	2	1	15
% Market rate homes priced for the Middle Market	***50%***	***38%***	***28%***	***16%***	***80%***	***63%***
% All homes priced for the Middle Market	***50%***	***40%***	***28%***	***17%***	***80%***	***67%***

Source: MLS and BBC Research & Consulting.

The presence of investors and cash buyers in Boulder's market can make homes priced for the middle market even harder to access for households without accumulated wealth. MLS statistics from the first half of 2015 indicate that 36 percent of Boulder home sales were cash purchases—many of those transactions are likely to be investors.

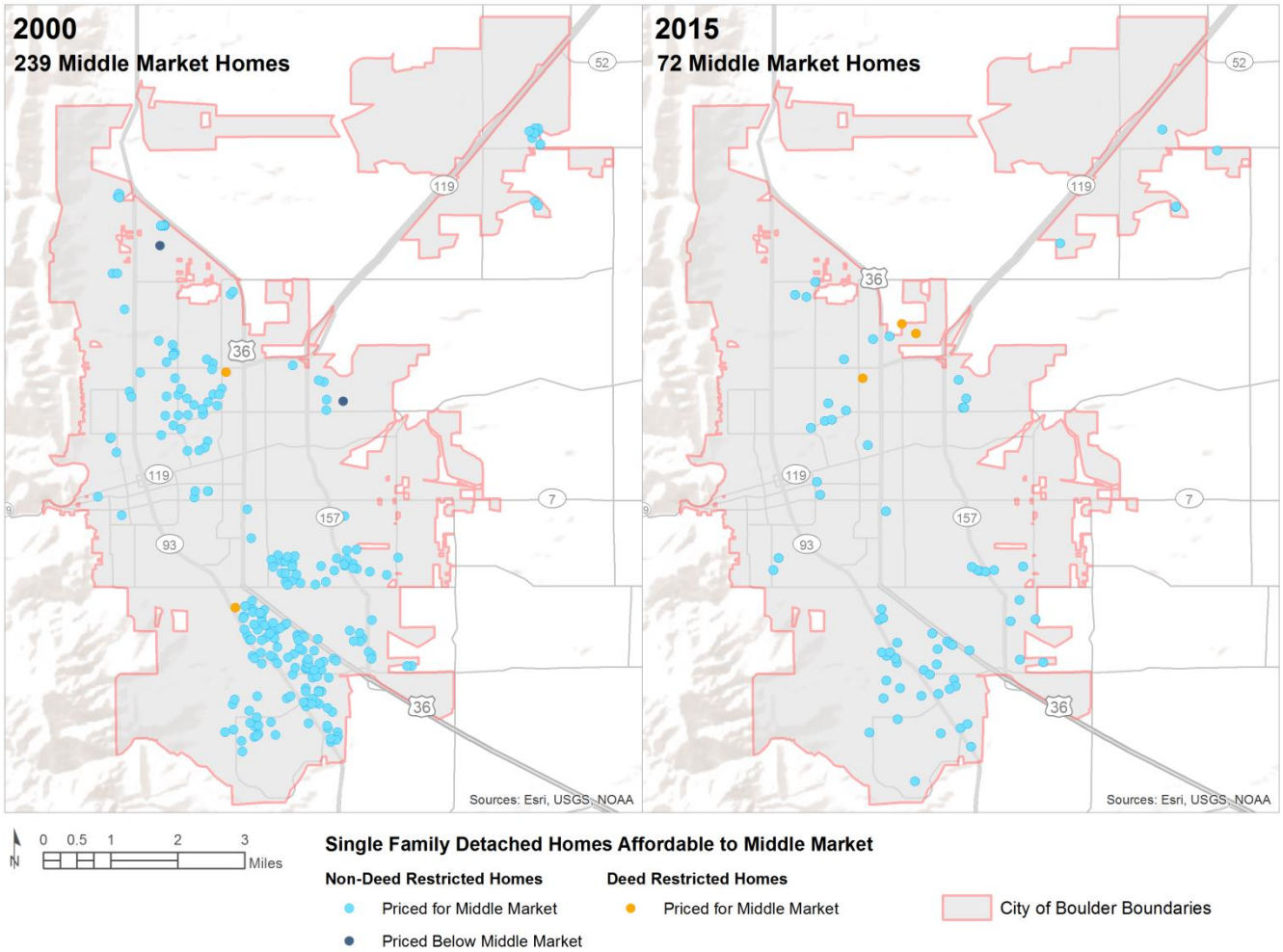
The maps on the following pages (Figures III-10 and III-11) provide additional detail on the location of Middle Market homes listed or sold in both 2000 and 2015. The maps also show homes priced below the Middle Market price thresholds.

In addition to a decline in the number of Middle Market products overall, the maps demonstrate a dilution of centrally-located homes.

SECTION III. Missing Middle Price Trends and Affordability

Figure III-10.
Single Family Detached Homes Affordable to Middle Market, Listed or Sold in 2000 and 2015

Source:
MLS and BBC Research & Consulting.

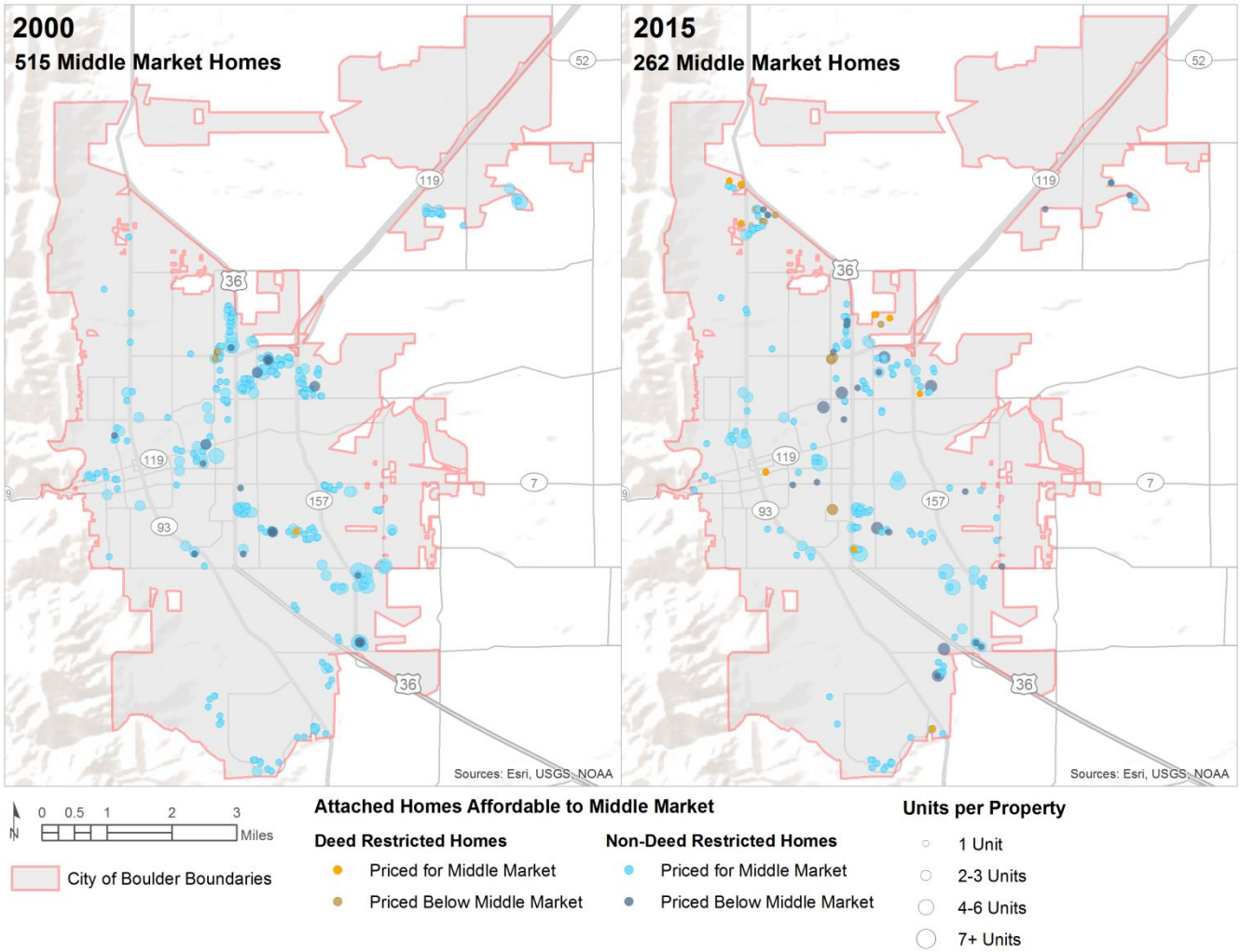


SECTION III. Missing Middle Price Trends and Affordability

Figure III-11. Attached Homes Affordable to Middle Market, Listed or Sold in 2000 and 2015

Source:

MLS and BBC Research & Consulting.



SECTION III. Missing Middle Price Trends and Affordability

Are Middle Market products missing from Boulder sales? Figure III-12 compares Boulder's housing stock to all homes listed/sold in 2015. It also shows the proportion of homes by type that are affordable to the Middle Market, based on 2015 MLS data. The figure excludes deed restricted properties.

Overall, detached homes are underrepresented in the for-sale market and condos are overrepresented. Townhomes are slightly underrepresented on the market, as are du-/tri-/fourplexes.

Figure III-12.
Distribution of Housing Stock and Homes Listed/Sold by Type, City of Boulder, 2013/2015.

	Distribution by Type		Percent Priced for Middle Market (market rate)
	Owner Occupied Housing Stock	All Homes Listed or Sold in 2015	
Detached	68%	53%	16%
All Attached	27%	47%	63%
Condo	*8%*	*30%*	*65%*
Du-/tri-/fourplex	*4%*	*1%*	*33%*
Townhome	*16%*	*14%*	*61%*
Specific type unknown		*2%*	*65%*
Mobile Homes	5%	0%	N/A
Total	**100%**	**100%**	

Note: Priced for Middle Market means homes that fall within the Middle Market affordability range. Does not include homes priced below Middle Market range.

Source: 2011-2013 ACS, MLS and BBC Research & Consulting.

Single family detached units account for 68 percent of Boulder's housing stock but only 16 percent were priced for the Middle Market in 2015. Conversely, just 17 percent of boulder's homes are attached but 63 percent of those were priced for the Middle Market in 2015. One-third of du-/tri-/fourplexes, 65 percent of condos and 61 percent of townhomes listed or sold in 2015 were priced for the Middle Market.

Have attached products grown in size as they have become substitutes for single family detached products? Figure III-13 compares the average square footage by type for homes listed or sold in Boulder in 2015 with previous years. Interestingly, this figure suggests that attached products have not grown in size, even as they have become economic substitutes for single family detached products. Average square footage for attached homes increased by 150 square feet between 2000 and 2015. Yet single family detached increased by 700 square feet over the same period—a 29 percent increase in size.

Figure III-13. Average Square Footage by Type, City of Boulder, 2000-2015

	Single Family Detached	All Attached	Condo	Townhome
2000	2,453	1,078	N/A	N/A
2005	2,757	1,151	946	1,527
2008	2,737	1,281	1,007	1,615
2011	2,749	1,330	1,080	1,660
2012	2,747	1,279	1,036	1,526
2013	2,793	1,230	1,017	1,547
2014	2,859	1,200	987	1,578
2015	3,153	1,223	988	1,583

Source:
MLS and BBC Research & Consulting.

SECTION III. Missing Middle Price Trends and Affordability

Rental Analysis

Just over half of all Boulder households are renters. Boulder's rental market has been consistently tight, with low vacancy rates and rising rents, particularly in recent years. Middle Market households in Boulder are able to afford 99 percent of rental units but must consider a variety of tradeoffs when choosing to rent, sometimes as the only option for living in the city limits.

Vacancy rates. The Census documents consistently low rental vacancy rates in Boulder over the past 30 years, the lowest in 2000 at 2.2 percent. The proportion of households that are renters has remained relatively stable and was estimated to be 51 percent in 2013. Figure III-14 displays the number and proportion of rental occupancies and vacancies in Boulder from 1980 through 2013.

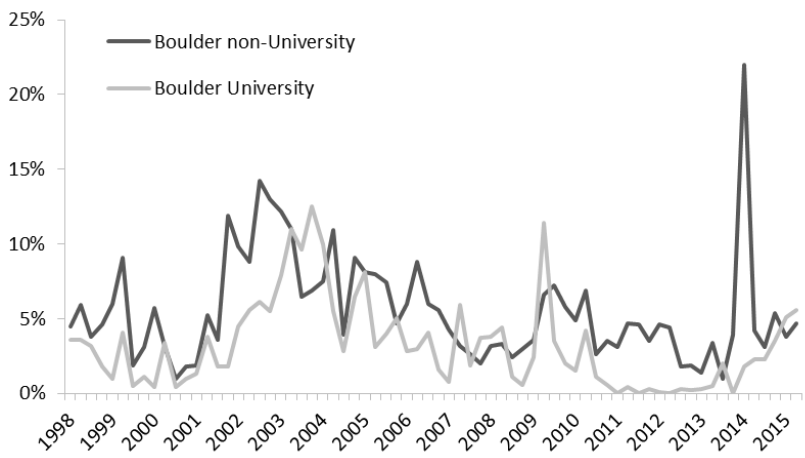
Figure III-14.
Renter Occupancy and Vacancy, City of Boulder 1980-2013

	1980	1990	2000	2008-2010	2011-2013
Renter occupied units	15,106	18,674	19,991	21,096	21,135
Percent of all occupied units	50.3%	51.5%	50.5%	52.3%	51.2%
Change in occupied rentals		**3,568**	**1,317**	**1,616**	**39**
Vacant rentals	795	884	444	574	659
Vacancy rate	5.0%	4.5%	2.2%	2.6%	3.0%
Total rental units	**15,901**	**19,558**	**20,435**	**21,670**	**21,794**

Source 1980, 1990 and 2000 Census; 2008-2010 and 2011-2013 ACS; and BBC Research & Consulting.

Figure III-15 displays quarterly multifamily vacancy rates for Boulder submarkets between 1998 and 2015. Excluding a spike in late 2014, which reflects a new development coming on line, vacancy rates for both city submarkets have held below 5 percent since 2010.

Figure III-15.
Quarterly Vacancy Rates, Boulder Submarkets, 1998-2015



Source: Metro Denver Vacancy and Rent survey.

SECTION III. Missing Middle Price Trends and Affordability

Trends in rents and rental stock. According to the Census Bureau, median rent including utilities in the City of Boulder increased from $818 in 2000 to $1,173 in 2013—a 43 percent rise.

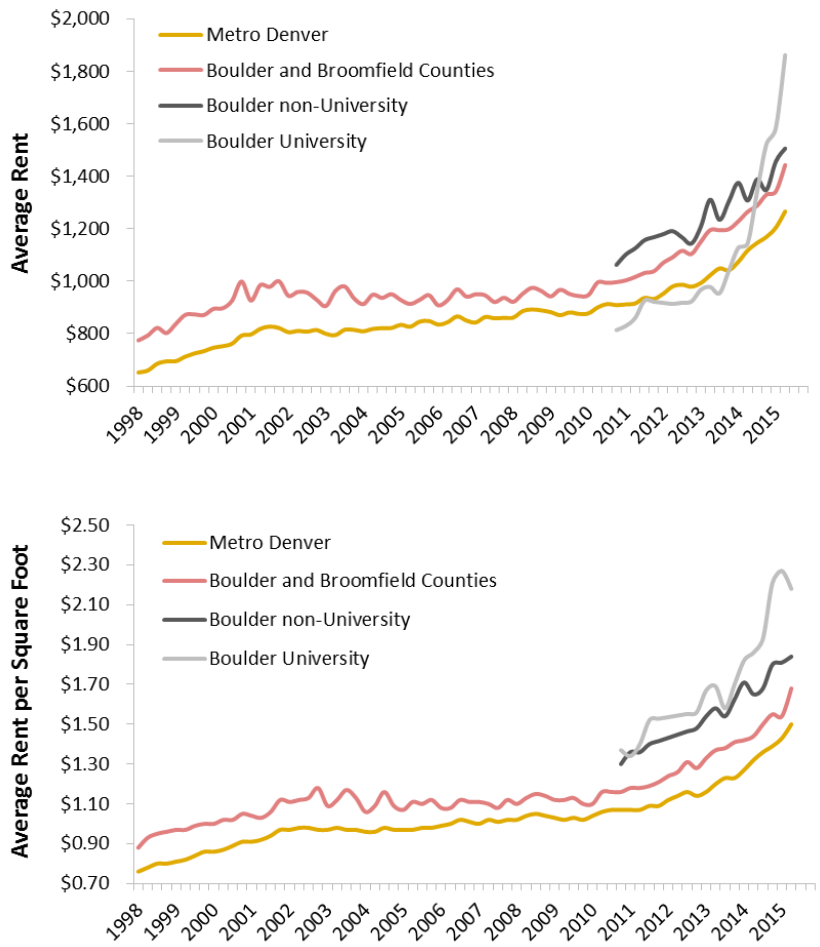
The Denver Metro Apartment Vacancy & Rent Report, the most up-to-date source for local rental trends, which does not include single family rentals estimates the Q2 2015 average rent in Boulder to be $1,861 in the University area and $1,505 in non-University Boulder, up from $703 and $960 in Q2 2006, respectively.

Figure III-16 displays the long term trend in average rents and average rent per square foot for Boulder/Broomfield counties (collectively) and Metro Denver as a whole. The figure also includes data for City of Boulder submarkets starting in 2010. Rents were relatively stable through much of the 2000s but began to increase more sharply in 2011.

Since 2011, rents in the non-University area have increased by about 8 percent per year and rents in the University area have increased by 21 percent per year.

Not surprisingly, 3-bedroom units command the highest rents in both Boulder submarkets: $2,262 on average in the non-University area and $3,462 in the University area. Figure III-17 shows the average rent by unit size in 2006, 2011 and 2015. The figure also compares compound annual growth rates from 2006 to 2011 and 2011 to 2015 and includes comparative data for the Denver Metro area as a whole.

Figure III-16.
Quarterly Average Rent and Average Rent per Square Foot, 1998-2015



Source: Metro Denver Vacancy and Rent survey.

SECTION III. Missing Middle Price Trends and Affordability

Citywide, efficiencies and 2 bed/2 bath units experienced the largest price increases. Outside the university area, 3-bedroom units also experienced substantial price increases relative to other types.

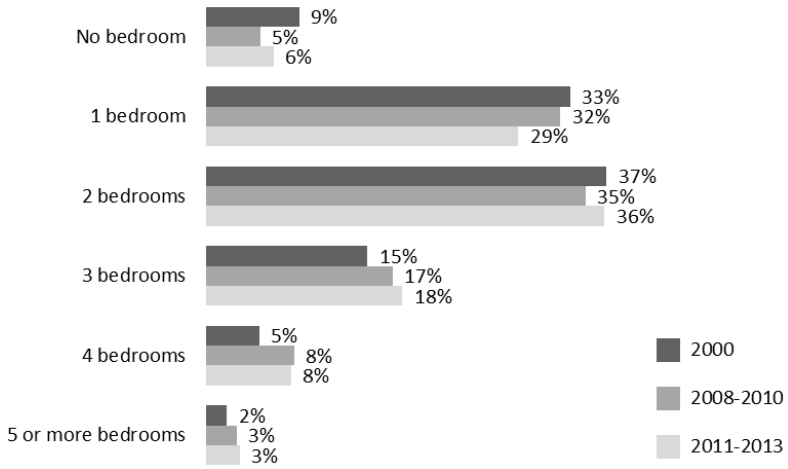
Figure III-17.
Average Rent and Compound Annual Growth Rate by Size of Unit, Boulder Submarkets, 2006-2015

	Average Rent			CAGR	
	2006 Q2	2011 Q2	2015 Q2	2006-2011	2011-2015
Boulder - Except University					
Efficiency	$892	$950	$1,459	1%	11%
1 bed	$914	$1,039	$1,299	3%	6%
2 bed, 1 bath	$801	$1,072	$1,413	6%	7%
2 bed, 2 bath	$1,144	$1,242	$1,912	2%	11%
3 bed	$1,128	$1,530	$2,262	6%	10%
All	$960	$1,125	$1,505	3%	8%
Boulder - University Area					
Efficiency	$492	$725	$1,741	8%	24%
1 bed	$673	$824	$1,453	4%	15%
2 bed, 1 bath	$859	$1,109	$1,779	5%	13%
2 bed, 2 bath	$913	$1,026	$2,663	2%	27%
3 bed	$1,900	$2,083	$3,462	2%	14%
All	$703	$860	$1,861	4%	21%
Metro Denver					
Efficiency	$586	$675	$1,004	3%	10%
1 bed	$735	$800	$1,121	2%	9%
2 bed, 1 bath	$813	$858	$1,192	1%	9%
2 bed, 2 bath	$1,009	$1,085	$1,493	1%	8%
3 bed	$1,143	$1,293	$1,788	2%	8%
All	$844	$915	$1,265	2%	8%

Source: Metro Denver Vacancy and Rent survey and BBC Research & Consulting.

According to the ACS, two-bedroom units are the most common in Boulder, accounting for about 36 percent of all rental stock. One-bedroom units account for another 29 percent. Over the past 15 years, the proportion of larger rental units (3 or more bedrooms) has increased from 21 percent in 2000 to 29 percent in 2013.

Figure III-18.
Distribution of Rental Stock by Bedroom, City of Boulder, 2000-2013



Source: 2000 Census, 2008-2010 ACS, 2011-2013 ACS and BBC Research & Consulting.

As shown in Figure III-19 on the following page, about half of all rentals are in buildings with at least 10 units. The proportion of rentals that are single family detached units has held steady at 19 percent since 2000.

SECTION III. Missing Middle Price Trends and Affordability

Figure III-19.
Distribution of Rental Units by Type, City of Boulder, 2000-2013

	2000	2008-2010	2011-2013
Number of rentals	20,051	21,096	21,135
Distribution of Rental Units by Type			
Single family detached	19%	19%	19%
Townhome	17%	20%	16%
Duplex, triplex, fourplex	16%	12%	15%
Condos/apt	47%	49%	49%
Small condo/apt bldg (10-20 units)	*14%*	*16%*	*14%*
Med condo/apt bldg (20-50 units)	*16%*	*14%*	*18%*
Large condo/apt bldg (50+ units)	*18%*	*19%*	*16%*
Mobile home	1%	1%	1%

Source: 2000 Census, 2008-2010 ACS, 2011-2013 ACS and BBC Research & Consulting.

Figure III-20 displays the percent of all homes by type that are occupied by renters. Just 23 percent of single family detached units and 33 percent of townhomes are occupied by renters. In contrast, 94 percent of du-/tri-/fourplexes and 87 percent of condo/apartment buildings house renters.

Figure III-20.
Percent of Homes Occupied by Renters by Units in Structure, City of Boulder, 2000-2013

	2000	2008-2010	2011-2013
Number of rentals	20,051	21,096	21,135
Percent of All Homes Occupied by Renters			
Single family detached	21%	22%	23%
Townhome	36%	44%	33%
Duplex, triplex, fourplex	84%	94%	94%
Condos/apt	85%	88%	87%
Small condo/apt bldg (10-20 units)	*83%*	*79%*	*75%*
Med condo/apt bldg (20-50 units)	*80%*	*79%*	*72%*
Large condo/apt bldg (50+ units)	*79%*	*86%*	*82%*
Mobile home	85%	86%	87%

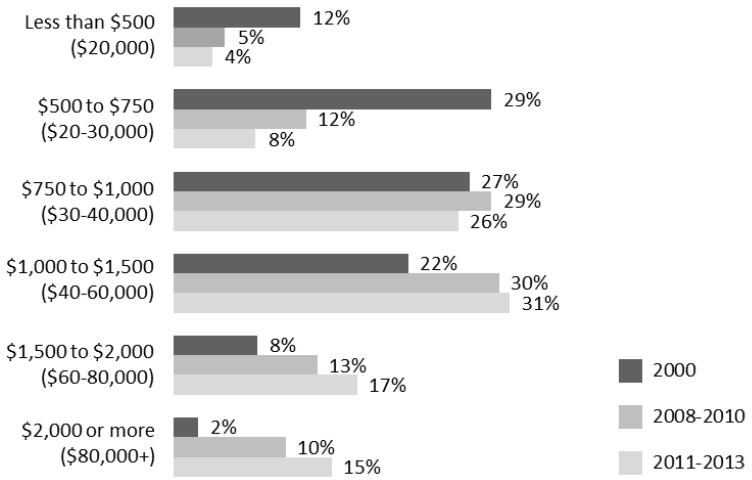
Source: 2000 Census, 2008-2010 ACS, 2011-2013 ACS and BBC Research & Consulting.

Rentals for the Middle Market. In 2000, 41 percent of rentals were priced below $750 per month and just 10 percent were priced over $1,500 per month. By 2013, only 12 percent were priced below $750 and 32 percent were priced over $1,500 per month. Nearly two-thirds of all rental units in 2013 were priced over $1,000 per month. The shift toward more expensive rentals in Boulder's market is illustrated in Figure III-21 on the following page, which depicts the distribution of gross rent (rent including utilities) in 2000, 2010 and 2013.

This shift in rents is driven by rising rents of existing stock but also by new construction that focuses on amenity-rich luxury products.

SECTION III. Missing Middle Price Trends and Affordability

Figure III-21.
Distribution of Gross Rent (Income Required to Afford), City of Boulder, 2000-2013



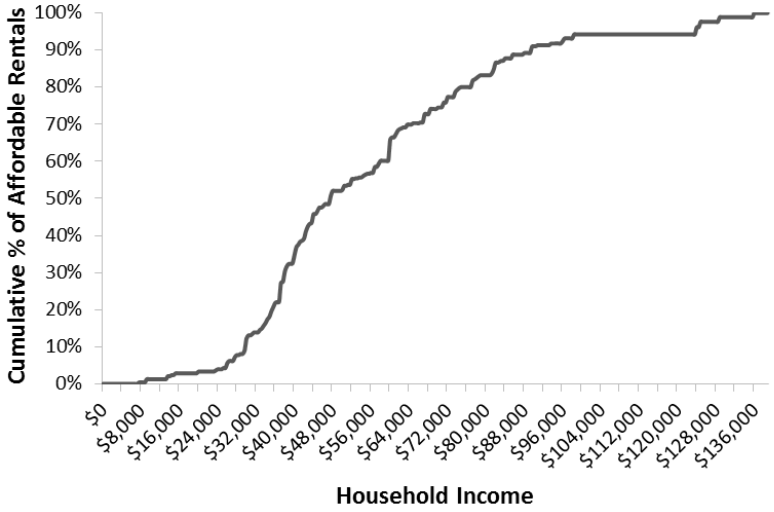
Source: 2000 Census, 2008-2010 ACS, 2011-2013 ACS and BBC Research & Consulting.

As discussed in Section II, middle income households in Boulder can afford between $1,327 and $3,356 in rent. Of the 21,000 rental units in Boulder, 39 percent are priced in the Missing Middle range and another 60 percent are priced below that range—meaning 99 percent of all rentals are affordable to middle income households.[4]

Figure III-22 displays cumulative affordability by income in Boulder—that is, the cumulative proportion of rentals affordable by household income.

[4] Calculation assumes 1-person Middle Market renter can live in any size unit and 3-person Middle Market renter requires at least two bedrooms.

Figure III-22.
Cumulative Proportion of Affordable Rentals by Income, City of Boulder, 2013



Source: IPUMS 2009-2013 ACS and BBC Research & Consulting.

For Middle Market renter households, the choice to live in Boulder is one of tradeoffs as opposed to affordability. An extensive housing choice survey of Boulder in-commuters conducted in 2014 found that about half of middle income in-commuters would consider living in Boulder in the future. Most were willing to live in attached housing in order to live in Boulder and expressed a strong preference for townhomes and du-/tri-/fourplexes over condos/apartments. Boulder's current rental market has a relatively small and declining share of those attractive types of units (31 percent of the total rental stock)—down from 33 percent in 2000.

SECTION III. Missing Middle Price Trends and Affordability

Balancing housing preferences with a desire to live in Boulder may pose a particular challenge for middle income families as family-oriented developments are in shorter supply. Recent rental developments in Boulder tend to offer amenities attractive to non-families (e.g., fire pits, dog washes, bike maintenance areas but no playgrounds, no mention of proximity to daycare or schools on websites; pictures of dogs but not kids).

In addition to housing type preferences, Middle Market renters also weigh the tradeoff of renting in Boulder against purchasing a home—either in Boulder or elsewhere. According to the 2014 Housing Choice Survey, just 6 percent of Boulder renters that made some type of tradeoff to afford Boulder said they were willing to rent instead of purchase a home in order to live in in the city.

Figure III-23 examines the tradeoff between renting at two of Boulder's newest rental developments and purchasing a similar sized home in Boulder. Two- to three-bedroom units at the Lofts at Peloton range in price from $2,400 to $4,100 per month and offer between 1,000 and 1,700 square feet. For the same monthly expense, a Peloton renter could purchase up to 83 percent of all two-bedroom attached homes listed for sale in 2015 in Boulder.

Figure III-23.
Comparison of Rents to Purchase Options, City of Boulder, 2015

	Solana		Peloton	
	Low	High	Low	High
Rent for a 2-3 bedroom unit	$2,123	$2,418	$2,424	$4,124
Square Footage	969	1,072	1,056	1,659
Purchase options at the same monthly cost				
2+ bedroom attached homes:				
% affordable to renter	28%	43%	43%	83%
Average square footage	1,138	1,189	1,189	1,396
2+ bedroom townhomes/ du-/tri-/fourplexes:				
% affordable to renter	19%	33%	33%	85%
Average square footage	1,357	1,406	1,406	1,634

Note: Solana does not offer a three-bedroom unit.

Source: www.theloftsatpeloton.com, www.solanaboulder.com, MLS and BBC Research & Consulting.

SECTION IV.

Impacts of Middle Market Development

SECTION IV. Impacts of Middle Market Development

What Does the Future Hold?

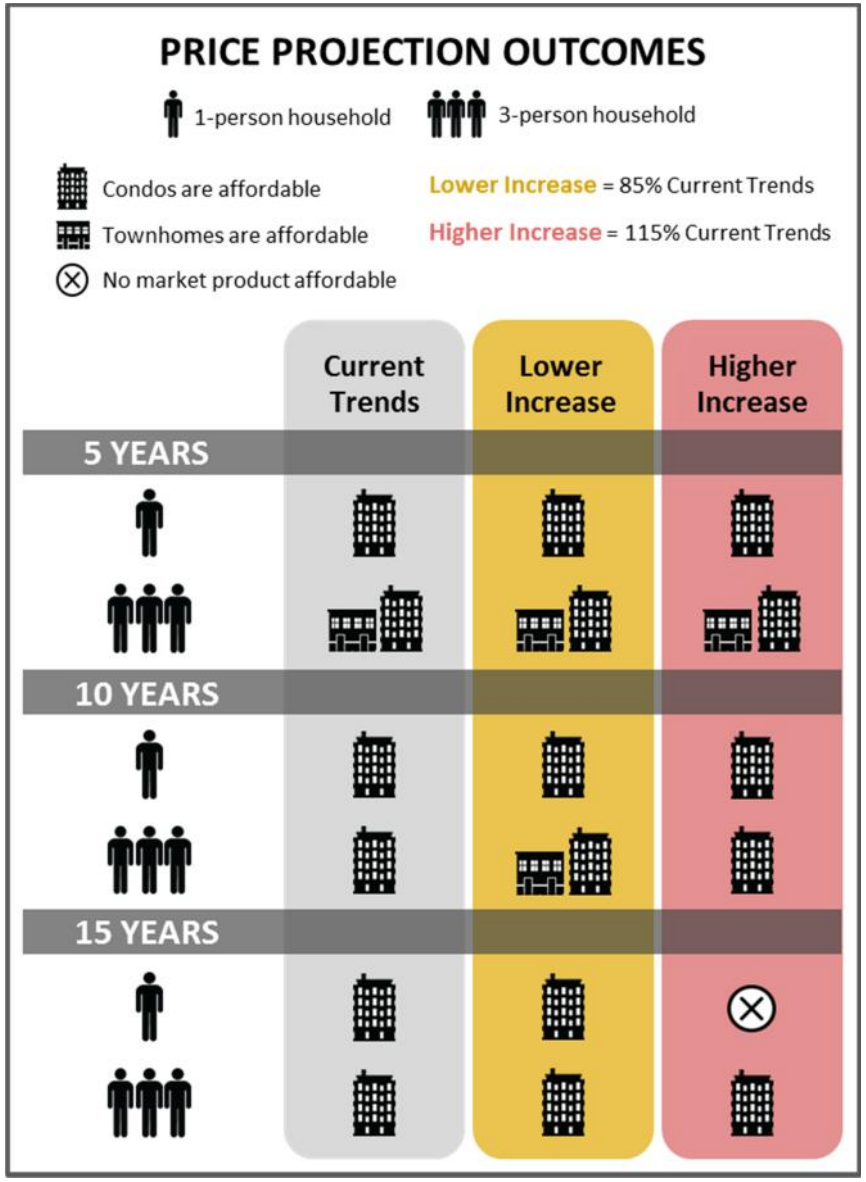
To understand how prices could increase during the next 5, 10 and 15 years, we modeled three price scenarios:

- Price increases are the same as those experienced between 2000 and 2015 ("Current Trends"),
- Demand slows and prices increase at 85 percent of the rate experienced between 2000 and 2015 ("Lower Increase"), and
- Demand accelerates and prices increase at 115 percent of the rate experienced between 2000 and 2015 ("Higher Increase").

In all scenarios, incomes were assumed to increase at the same rate as the previous 15 years (1.99% increase per year for the HUD median income).

The outcomes of each price scenario projections for 5, 10 and 15 years are shown in the infographic to the right. Specifically, the graphic shows when 1- and 3-person middle income households can no longer afford the median home price by type of home. In all but one scenario both 1- and 3-person households are limited to condos within 10 years.

Although not shown in the figure, 3-person households are limited to one-bedroom units within 10 years, except in the lower increase scenario.



SECTION IV. Impacts of Middle Market Development

Given Increases in Costs, is it Possible to Develop Affordable Middle Income Products in the Future?

Newly constructed, market rate condos and townhomes in Boulder that were on the market in 2014 and 2015 ranged from $230,000 for a very small one-bedroom, one-bath condo, to $550,000 for a well-sized 3-bedroom, 2-bath condo, to $800,000 for a large, amenity-rich product.

Several new residential communities are planned for 2016 and 2017 in Boulder Junction. Residential development will include approximately 150 permanently affordable units and 168 market rate units. Currently, the units are expected to sell in the $500,000 to $700,000 range. This pricing is determined by both what the market will bear, the costs of development, and the risks developers absorb.

New, single family detached products in Boulder are selling for between $350 and $550 per square foot, depending on the location. This equates to a price of between $770,000 and $1.2 million for a 2,200 square foot home.

As demonstrated in Section III, although attached products are not always less expensive on a price per square foot basis, their smaller size results in a lower cost overall. And even as prices rise—as they are likely to do in the future—attached products offer deeper levels of affordability.

What Can the City Do to Facilitate Middle Market Development?

This study has demonstrated that privately-provided, smaller, attached housing products play a significant role in maintaining a supply of affordable housing in Boulder. Although attached products have increased in price in tandem with the market overall, they have been more effective in maintaining affordability than single family detached homes. This is likely to continue in the future, especially for condominiums.

Encourage attached products. A potential strategy for maintaining middle income housing options in the city is to focus on types that are underrepresented in Boulder's housing stock and/or the market but also have a relatively high affordability for the Middle Market—du-/tri-/four-plex developments and townhomes. These are also the types of attached products middle income commuters indicated they would be most willing to accept in order to live in Boulder in a 2014 survey of Boulder residents and workers.

Developers who were interviewed by Clarion Associates in 2014 confirmed this strategy, naming the following product types that they felt are needed to house middle income households in Boulder: Micro-units, cottages, and other small products will sell/rent in current market and may be the best way to create affordability without subsidies.

Lower prices for attached products developed in the next few years could be achieved by streamlined development approval;

SECTION IV. Impacts of Middle Market Development

aggressively zoning for smaller, attached units in areas that can accommodate additional units; and reducing land costs.

The first two would reduce the risk developers are currently building into pro formas of developing in Boulder. Removing land from the equation—e.g., in a model where land was deeply discounted or donated, much like Denver's Stapleton or Lowry—can reduce prices significantly.

Other concepts that are being actively explored in other high-cost cities include micro-housing, small lot subdivisions and land trust housing.

Develop communities around existing inventory. As in any community, some of the most affordable properties in Boulder are affordable because they are 1) In less desirable locations (e.g., busy streets, adjacent to industrial or commercial uses), and 2) Were not built to current preference standards of residents.

The limitations of these properties offer value in that they have kept a segment of the market more affordable. And these properties are likely to remain relatively affordable in the future—making them the only option for many middle income households.

Attached products, even in a community like Boulder, remain less desirable for growing families. One Boulder builder attributes this to an "American culture that is geared toward independence." Yet developing a community feel within and around these properties—thereby demonstrating that the property offers the same level of collaborative living environment as planned unit development—may be key to attracting families to attached housing. This will also be important to residents without children, particularly low to moderate income workers, who consider the trade-offs of living in Boulder in smaller, attached homes or potentially buying a detached home in a surrounding community.

Focus on the preservation or conversion of existing properties. Conversions of old motels into single-room occupancy, transitional and/or permanently affordable housing for low income residents has been used in many markets. More aggressively making better use of the underutilized properties in Boulder should be part of the solution to create more Middle Market Housing.

Reduce development barriers. Developers interviewed for this study, many of whom also participated in a focus group discussion about housing development barriers in 2014, believe simplifying the residential building code to reduce the conditions placed on alternative housing types, in addition to offering more flexibility in setbacks, open space requirements, lot sizes and parking standards, would help reduce the cost of developing housing affordable to the middle market. This lack of flexibility and variance options, coupled with linkage and inclusionary zoning fees, incentivize developers to build larger, less affordable products. Reductions in development barriers should reduce costs and could be coupled with agreements that developers offer the homes at a more flexible price point.

Attached products are more dependent on the community around them.

Attachment B: CURRENT TRENDS

One important step toward developing a middle income housing strategy is to understand current land use capacity. Staff prepared this qualitative GIS-based analysis to reflect what current zoning allows.

2040 Housing Unit Projections

Subcommunity	**Existing Units in 2015**	**Additional Units (Zoning Capacity)**
Central Boulder	13,370	730
Colorado University	2,020	1,080
Crossroads	4,250	1,250
East Boulder	1,400	800
Gunbarrel	5,600	200
North Boulder	6,080	620
Palo Park	1,720	480
South Boulder	7,320	480
Southeast Boulder	9,680	1,120
Total		**6,760**

Source: 2040 Projections prepared in 2015 for BVCP update

The housing unit projections for 2040, summarized in the above table, were developed as part of the Boulder Valley Comprehensive Plan update. Projections are not a precise science. The numbers are generated by a model that estimates how many additional units could be built on a site based on the zoning designation. The market conditions (likeliness to redevelop) of each site are not taken into consideration. These numbers represent maximum potential under current zoning with assumptions about constraints built into the model. Even so, all sites may not redevelop to include the full number of units tallied through the analysis.

Remove Parcels Unlikely to Provide Future Housing

After accounting for all potential housing development that might be possible under current zoning, those that would be developed or redeveloped for private or public housing (outside CU) within the next 15 years were deducted. The following categories of units have been deducted from the unit projections noted above.

- Permitted units – 902 units (13 percent) of projected units were permitted since the time the model was prepared. These units will still contribute housing to the overall housing mix, but they do not offer future potential.
- University of Colorado – 1,372 units (20 percent) are attributed to CU's plans for additional student housing and dormitory units.
- Boulder Junction – 987 units (15 percent) are in future phases and not yet zoned to accommodate the number of units projected. Once those areas are zoned, those units could be built but not in the immediate future. Phase 2 of the Transit Village Area Plan

identifies these units by 2040 for development of areas east of the railroad and west of 30th.

- Religious or Private Schools – 474 units (7 percent) of projected units are owned by religious entities or private schools. Many have either large surface parking lots or vacant adjacent land; however if they redevelop as housing they are more likely to serve a population in need (e.g., Trinity Lutheran will serve low-income seniors).

Remaining Capacity for Housing

Subtracting units projected on the categories detailed above removes 3,735 units, 55 percent of the projected units, and reduces the number of potential middle income units from 6,760 to approximately 3,025 units for the immediate future.

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MEMORANDUM

To: City of Boulder
From: Heidi Aggeler
Re: Summary of discussions with developers re: Missing Middle housing products
Date: November 19, 2015

To inform the Middle Income Housing Study, BBC interviewed developers active in building attached products in Boulder. BBC's discussions focused on market demand for attached products (who is buying, who is not); the types of products missing in Boulder; and recommendations for how the city could facilitate development of Missing Middle housing.

We also reviewed findings from the developer/builder focus groups conducted by Don Elliott of Clarion Associates in late summer 2014. That group discussion focused on specific opportunities to produce innovative and affordable housing products in Boulder, as well as regulatory barriers to the realization of those products.

This memorandum summarizes the findings from these discussions.

Market Demand for Attached Products

Developers agree that the Boulder market can absorb just about any type of affordable housing product, although some products are slower to sell than others. Attached housing located on busy streets, without access to open space and/or private outdoor space, and without a perceived "community" are in lowest demand. Conversely, attached products in the highest demand are those that are built within or create an intentional community.

Families are not yet actively buying attached homes. This may be partially related to the lack of family friendly amenities in some of the attached-product communities that have been built in Boulder. The Holiday neighborhood appears to be an exception. Developers feel that Boulder needs to work on creating a culture for young families within attached housing that is special and different from that in the surrounding suburbs.

The idea that detached homes are superior to attached homes is rooted in a Western culture geared toward independence. There is a need to stimulate cultural change to encourage residents to think more broadly about attached housing products as an acceptable long-term

housing solution. This cultural change should be stimulated at the government level with more creative thinking about housing solutions.

Perceived Gaps in the Market

Developers believe that smaller products are key to affordability. "The smaller the unit, the smaller the gap between price and ability to pay." *Note: This theory is supported by the analysis in the Middle Income Housing Study.*

When asked what types of housing products are missing from the market in Boulder, developers said:

- A diversity of attached housing products in general.
- Affordable homes that are not deed-restricted, allowing buyers to "move up."
- Homes affordable to people in the upper AMI brackets.

Primary Barriers to Developing Affordable Attached Homes

Developers were asked their opinion on the primary barriers to developing affordable, attached homes in Boulder. The barriers given focused on land costs and regulatory barriers; no developers mentioned lack of demand in Boulder as a challenge.

High land costs. "Land cost is the biggest problem we have in Boulder." There is a tremendous amount of underutilized land in Boulder that should be repurposed into affordable, attached homes. The city needs to more actively subsidized land that could be transformed into attached-housing communities.

Strong notions of how people should live driving policy. The bias of city leaders toward living in detached single family homes creates barriers to affordable housing in that it prevents diversity in housing products and choice.

High fees. Residential development fees have increased significantly during the past decade. Although most fees are relatively small, together, they contribute significantly to the cost of housing development. Some of these fees should be waived for affordable housing.

Fees that create the largest barriers include: use tax (very high), development excise tax and development review fees.

Complexity of the code. Boulder's code is very complex in general. As such, this lengthens the development process, raises costs and discourages affordable and residential development. An example of this is the new IG district which, because of its complexity and conditions, has not been the expected boon for residential development.

Specific concerns mentioned by developers include:

- Very tightly defined and controlled setbacks, open space, and parking standards with no administrative flexibility, make it seem like every project requires multiple variances.

- The same parameters are measured and treated differently for different types of housing. Example: Roof decks are considered open space for multifamily units but not for single-family units.

- Road widths are inflexible, and it seems there is no one way to resolve differences between planning and public works staff on those issues.[1]

Specific challenges within the code.

Per dwelling unit standards. Lot size and open space requirements tied to number of dwelling units take away any incentive to build smaller, more affordable units. The same requirement applies whether the unit is small or large. Smaller units should be treated differently, and restricting unit sizes will lead to more affordable units.

Parking regulations.

- Parking requirements and related areas for screening and landscaping of parking areas often limit achievable density even when per dwelling unit development standards do not. In other cases, parking maximums defeat project financing.

- Underground parking is still cost prohibitive in many projects despite incentives in the code.

- City delays in approving neighborhood parking permit areas is an issue. With a backlog of applications, developers cannot realistically offer this as way to mitigate neighborhood impacts from affordable projects with little on-site parking.[2]

- There is a need for more Boulder-specific studies on car usage and actual parking trends. Who is renting and buying these units and how many cars do they own?

- RTD is part of the problem; they are slow/unwilling to expand EcoPasses into new contexts such as affordable housing developments. But without a commitment to EcoPasses in new developments, the neighbors will continue to demand more on-site parking.

Building height limits.

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[1] Staff note: Different road widths have been allowed in many different projects. Please note that this is an emergency service provider issue and not just a Public Works and Planning.

[2] Staff note: The longest time frame for neighborhood parking permit is a year depending on the number of requests and scheduling for the public process.

- Current height limits are unrelated to building code-driven logical cutoff points for different types of housing construction. There is no flexibility for even small deviations due to building design or site constraints.

- Even where the code allows extra heights if specific conditions are met, the public treats them as variances or bonuses, and staff sometimes calls them by those names and treats them that way.

Design requirements. Boulder's design requirements are much less flexible than in many other communities and lead to higher housing costs. In general, the progressive nature of Boulder residents means that developers do not need to build "showy" housing products. Developers are not advocating for cheap housing, but feel that relaxing design standards for affordable products would help reduce costs without negatively affecting neighborhoods.

A high risk development environment. Overall, there is no incentive in Boulder to build a moderately-priced product. The risk of developing in Boulder is too high, the process is too difficult, and the codes incentivize less dense developments.

Developers raise prices on market rate units to gauge against the risk of developing in Boulder. Developers estimate that the regulatory environment causes a difference in pricing between deed-restricted and market rate units of 200 to 400 percent.

Factors that contribute to a high-risk environment:

- The many conditions on allowable types of housing.

- The need to submit very detailed complex documents at (a) Concept, (b) Tech Docs, and (c) Building Permits (re-checked).

- Length of review: Reviews that take 6 months in other Front Range communities take 18 months in Boulder.[3]

- Lack of flexibility with linkage fees, inclusionary housing, and parking create incentives to builder bigger/traditional products.

The result is lack of variety in housing types. This is largely caused by the built-in bias towards larger units created by the linkage fee system, the per-dwelling-unit development standards, and time and risk of taking "a new thing" through the development review process. If barriers were removed, variety would increase over time.

[3] Staff note: This depends on what reviews are being discussed. If this it the time between initial concept and the first building permit being issued it may be accurate, but if it is specific to the entitlement process (e.g. Site Review) then 18 months is not accurate. A comparison with other Front Range communities is more complicated than implied by the comment.

In sum, Boulder's system assumes that there are only two types of housing: (a) subsidized or incentivized housing that is restricted for permanent affordability, and (b) private market rate units where sales prices will support linkage fees to support category (a).

Desired changes to regulatory review.

- Concept Plan approval should lead to entitlement, with later stages of review within the entitlement framework.
- Staff should have more ability to make common sense adjustments to unique circumstances.
- There should be fewer steps in the review process, with less detailed information needed up front, and more internal incentives to find all potential code issues during initial review.
- There should be more opportunities for developer/neighbor/staff collaboration in the review process.

What can the city do to facilitate development of attached and affordable homes?

When responding to this question, several developers began by acknowledging Boulder as a community long-committed to creative approaches for addressing affordable housing needs. "One of the great things about Boulder in the early years is that we could push the envelope." Boulder was one of the first communities to embrace the idea of mixed-type housing developments, allowing developers to depart from the traditional, single family detached model that dominated residential development in the 1970s and 1980s.

This early thinking about how to create communities is evident in current planning—e.g., in the current Comprehensive Plan update.

Developer responses to the question: **What can the city do to help create more attached housing?**

- Develop a culture that embraces alternative housing products. Be a leader. Stimulate cultural change in perceptions of how we live.
- Rezone parcels of the city to favor attached products.
- Streamline the regulatory process (see above recommendations).
- Lower fees. Waive impact fees for affordable developments (both deed-restricted and market rate affordable).
- Focus area plans on building community within what appear to be distinct and separate parcels. Bridge the functions of different developments to create continuity where it does not currently exist.

Developer responses to the question: **Where are the most opportunities to develop affordable attached housing?**

- Focus on developing community and repurposing of vacant and underutilized land in East Boulder. There is a perception that future residents may not want to live there because this area is not desirable for Planning Board or City Council members, or city staff. Yet there is such a keen interest in living in Boulder, that this area will be successful, especially if a neighborhood is developed around it.
- Transit Corridors: North and South Broadway
- Valmont, Arapahoe, 30th Street
- Frontage Roads, e.g., Foothills Parkway (single-family homes make no sense)
- North Boulder difficult sites. Because of flood plain issues and "bad zoning" the city will have to take the lead there
- In the future, adding density to existing neighborhoods.

Middle Income Housing Approaches from Other Cities

February 23, 2016 Study Session

City staff surveyed other cities in North America to identify different approaches to expand housing opportunities for middle income households. Included are three recently adopted housing strategies (Boston, New York and Seattle) and select examples of middle income programs and initiatives.

This broad sample includes both new and well-tested approaches. Further analysis would be needed to assess the feasibility and/or appropriateness for use in Boulder.

Recently Adopted Middle Income Housing Strategies

In 2014 and 2015, three cities, Boston, New York and Seattle, adopted housing strategies that included housing solutions targeted to serve middle income households. While these cities are much larger than Boulder, there are lessons to be learned from their approaches, both in regards to the specifics of tools employed as well as the broader approaches reflected in these strategies. For example, New York City, which lost numerous relatively affordable cooperative communities in the last housing bubble and stands to lose many more affordable apartments due to expiring affordability requirements, places a much greater emphasis on long-term affordability, while Seattle's approach to housing its middle class is far more market driven. Below are summaries of the middle income elements of these strategies.

City: *Boston, MA*
Document(s): Housing a Changing City: Boston 2030
Definition of Middle Income: $50,000 - $125,000 annual income
Related Articles: Walsh pushes for middle-income housing, May 2014, Boston Globe

Boston seeks to produce 20,000 additional middle income units by 2030 (4/5 of units are expected to result from private market activity with the balance of units deed restricted). The following are tools Boston intends to use to achieve its goals:

- Land use and zoning changes
- Property tax incentives
- Regulatory (streamlined permitting)
- Publicly-owned land
- Funding
- Affordable covenants
- Inclusionary Housing
- Programs (homebuyer assistance, Fair Housing)

MIDDLE INCOME GOALS (monitored quarterly):

1. Double middle-income housing production, creating 20,000 units by 2030
2. Expand and enhance homebuyer assistance programs (e.g., downpayment assistance, deed-restricted housing) to help 5,000 middle class homebuyers purchase first homes
3. Ensure equal home mortgage access to middle income households of all races.

ACTIONS:

Market-Oriented

1. **Rezone (land use, regulatory)** to allow significant density in areas affordable to middle class.
2. **Property tax incentives** to encourage middle income housing construction.

3. **Reduce residential construction costs** on housing product targeted to specific demographics (e.g., affordable, middle income), using a specific scope of construction in designated areas.
4. **Streamlined permitting** targeted to small builders developing privately-owned vacant parcels

Long-Term Affordability Secured

5. **Public resources**, including **city-owned infill lots and funding**, to create mixed-income homeownership development with long-term affordability;
6. **Inclusionary Development Policy** (up to half of units serve between 80% and 100% AMI);
   a) Continue to require substantial share of inclusionary housing units be provided onsite
   b) Modify policy to allow higher rents in targeted geographic areas

Other City Program

7. **Fair Housing education, monitoring and compliance** to promote racial equity in homeownership market

City: *New York, NY*
Document(s): Housing New York (2015)
Definition of Middle Income: 121 - 165% AMI (*Moderate income: 81 - 120% AMI)
Related Articles: De Blasio Unveils 'Most Ambitious' Affordable Housing Plan in Nation

Housing New York focuses on long-term affordability and preservation of units with expiring affordability, as a result, only one of its middle income-oriented actions, compact units, is purely a market solution. All other Housing New York actions result in long-term affordability. To secure more units affordable to middle income households, the city plans to rely on the following tools:

- Land use and zoning changes
- Funding and financing, property tax incentives, city-issued bonds
- Publicly-owned land
- Affordable covenants
- Policy (new mandatory inclusionary housing)
- Limited-equity coops
- Regulation (targeted parking reductions)
- Targeted infrastructure improvement
- Programs (homebuyer assistance, various coop organizing and financing programs, etc.)
- Public/private partnership

MODERATE AND MIDDLE INCOME GOALS:
Create and preserve 22,000 units affordable to moderate income households (80 – 120% AMI) and 22,000 units affordable to middle income households (121 – 165% AMI) over 10 years.

MIDDLE INCOME ACTIONS:

Market-Oriented

1. **Expand availability of compact units** (e.g., micro units)

Long-Term Affordability Secured

2. Establish new **Mandatory Inclusionary Housing** **(low and moderate* served**) and provide tax exemptions to developers for deeper affordability or higher share of affordability
3. Pilot **Mixed-middle-income Program:** 20% low, 30% moderate (Boulder's middle); 50% middle income; target to mixed use transit corridors; pursue zoning changes to support mixed use
4. **Create new tax incentive program** to provide rental building owners partial or full tax exemption in exchange for regulatory agreement ensuring affordability for life of exemption
5. **Inclusionary Housing Preservation Program** gives developers bonus density in exchange for

agreement to renovate and preserve affordable housing

6. **Expand Mitchell-Lama preservation strategies** (48,000 moderate and middle-income affordable rentals and coops); fund repairs and renovations in exchange for extended affordability and assist properties to restructure debts
7. **Finance affordable homeownership opportunities** (all existing programs) through Tenant Interim Lease Program, which helps organized tenant associations in City-owned buildings to set up low-income coops, Affordable Neighborhood Cooperative Program (uses HDC financing to promote development of affordable coops) and Real Estate Owned Program (third-party acquires and rehabilitates bank-foreclosed homes for moderate-income households)
8. **Aggregate small sites** for smaller rental and HO developments (new program)
9. **Targeted infrastructure investment** to enable new affordable units (e.g., sewers, streets)
10. **Identify underutilized city-owned sites** as mixed-income redevelopment sites
11. Identify and encourage development on **underused privately-owned sites** through strategic partnerships and pooled development rights
    Reduce development costs to encourage market affordability
12. **Reduce parking requirements for affordable housing in transit accessible areas**
13. **Ease restrictions on conversion of** older, obsolete **non-residential buildings** to residential.
14. **Create development finance toolbox** to leverage private market to develop affordable housing
15. **501(c)(3) bonds to finance MI housing:** Use 501(c)(3) charitable organization created with City's assistance to develop and provide middle income affordable housing on city-owned land.

City: *Seattle, WA*

Document(s): Housing Seattle: A Roadmap to an Affordable and Livable City, An Action Plan to Address Seattle's Affordability Crisis

Definition of Middle Income: Not defined

Related Articles: Seattle council candidates band together to back alternate housing plan

Of the three communities profiled with middle income components to their housing strategies, Seattle places the greatest emphasis on market interventions. Seattle does not propose to deed restrict middle income housing. Tools Seattle plans to employ to support middle income housing production include:

- Land use and zoning (e.g., urban villages)
- Regulatory change (streamlining permitting)
- Policy (parking reform)
- Land banking

MIDDLE INCOME GOALS:

Create 30,000 market-rate housing units over the next 10 years

MIDDLE INCOME ACTIONS:

Market-Oriented

1. **Increase Opportunities for Multifamily Housing,** particularly in areas near transit, services and amenities.
2. **Streamline City Codes and Permitting Processes**
3. **Comprehensive Parking Reform:**
    a) Clarify definition of frequent transit service to reduce requirements in transit areas;

b) Reduce parking requirements for multifamily housing outside of Urban Centers and Urban Villages that have frequent transit service;
c) Ensure parking mandates are not reintroduced in Urban Centers and Urban Villages; and
d) Remove parking requirements for ADUs and other small-scale housing types in Single Family areas.

4. In new transit hubs, work with government agencies to **secure land to build mixed-income housing**.

Select Middle Income Initiatives in Other Communities

In addition to profiling recent housing strategies, staff surveyed a variety of communities with programs and policies to address demand for middle income housing. Some of the communities profiled have long-standing middle income policies and programs and some are launching new initiatives.

Inclusionary housing is by far the most used approach to providing middle income housing with long-term affordability (i.e., deed restricting covenants). In addition to cash in lieu from inclusionary housing, funding sources employed by these communities include sales tax, commercial linkage fees, city-issued bonds and community benefit fees (bonus density, condominium conversion). Other tools employed to generate middle income housing in these communities include land banking, transfer of development rights, zoning and land use, regulatory tools (expedited review), accessory dwelling units and laneway houses and apartments, city-owned land, and homeownership programs (e.g., first-time homebuyer, energy conservation).

Aspen/Pitkin County, Colorado

According to the 3rd quarter 2015 Elliman Report, the median home sales price in Aspen was $3.4 million, making it one of the most expensive housing markets in the country. High housing costs have been a longstanding challenge in Aspen. In 1984, the Aspen/Pitkin County Housing Authority (APCHA) was created specifically to promote workforce housing solutions, rather than to provide housing services more typically associated with housing authorities such as public housing. Their mission statement is "to provide affordable housing opportunities through rental and sale to persons who are or have been actively employed or self employed within Aspen and Pitkin County…" According to the Aspen/Pitkin County Employee Housing Guidelines income categories served by APCHA range from low to upper middle income. To provide a sense of households qualified for APCHA's middle income categories, a household with two dependents can qualify for the lowest middle income category and earn up to $160,000. The same household could qualify for the highest upper middle income category and earning up to $201,000.

To support APCHA's efforts, the City of Aspen maintains a Housing Development Fund dedicated to affordable housing. Aspen's funding sources include:

- A one percent housing real estate transfer tax (established prior to TABOR),

- City sales tax,
- cash in lieu, and
- A Credit Certificate Program which allows a private sector developer to meet affordable housing requirements by purchasing a credit equivalent to the free market value of an affordable unit in an all-affordable housing project.

Pitkin County supports affordable housing with an Employee Housing Impact Fee.

Breckenridge, Colorado

A 2014 report documents the impacts of Breckenridge's affordable workforce program, including, most notably, housing one third (623 housing units) of all households in Breckenridge. One particularly notable deed-restricted development in Breckenridge is the Wellington Neighborhood. The Town of Breckenridge land banked the property that would become the Wellington Neighborhood and transferred development rights from other parcels to the Wellington parcels in order to create a mixed use, mixed-income neighborhood that includes 230 units deed restricted to household earning up to 80, 90, 100, 110, 120 and 150 percent AMI.

Montgomery County, Maryland

Established in 1974, Montgomery County, Maryland's inclusionary housing program, the Moderately Priced Dwelling Unit Program, is the oldest in the nation. It serves low to moderate income renter and owner households. In 2006, a second inclusionary housing program, the Workforce Housing Program was added in Montgomery County to create housing opportunities for middle income households (70 to 120 percent AMI). The inclusionary requirement applies to projects with 35 or more units and requires 10 percent of units to be restricted to these households. Stated goals of the Workforce Housing Program include providing housing choice, increasing housing for public employees whose incomes cannot support the high cost of housing close to their workplace, assisting employers in reducing critical labor shortages; and reducing traffic congestion.

Portland, Maine

Portland, Maine's recently adopted (October 2015) Inclusionary Zoning Ordinance places a 10 percent permanently affordable requirement on residential buildings with 10 or more units. Middle income households (100 to 120 percent AMI) are targeted by the program. Portland does not have an inclusionary program for low- and moderate-income households. This program is mandatory, but does provide development incentives such as increased height and density, and tax breaks.

Roseville, California

Roseville, California has a 10 percent affordable housing goal with 20 percent of the goal targeted to middle income households. Middle income housing is promoted through the Density Bonus Program (voluntary inclusionary housing with a deed restricting covenant), a commercial linkage fee, Second Unit Ordinance (accessory units, a market-rate housing solution), Condominium Conversion Ordinance (per unit one-time community benefit fee paid for conversion of rental apartments to for-sale condos), expedited project review, and zoning and land use.

San Diego, California

San Diego's Housing Trust Fund (HTF) is primarily funded by a commercial linkage fee as well as cash in lieu from the Inclusionary Housing program. Households with incomes up to 100 percent AMI can be served by the HTF. Over time middle income tiers (80 and 100 percent AMI) have been added to a number of housing programs, including the Housing Enhancement Loan Program (HELP) energy efficiency and water conservation loans, the first-time buyer Shared Equity Program, the Condominium Conversion Program and Down Payment/Closing Cost Assistance Grants.

San Francisco, California

San Francisco produces rental and for-sale middle income housing through its mandatory Inclusionary Housing Program, which produces housing that serves households earning up to 200 percent AMI. Other city programs with income limits up to 200 percent AMI include the City Second (mortgage) and Downpayment Assistance Loan programs. The income limits for the Rehab and Lead Programs top out at 92 percent AMI. The Middle Income Rental Housing Program serves households earning up to 150 percent AMI. These rental units are secured in exchange for a density bonus.

In 2007, SPUR (San Francisco Planning and Urban Research Association) convened a task force of architects, developers and policymakers to develop an affordable by design strategy for San Francisco. Recommendations focused on regulatory changes, parking, required "family" bedroom count units, design, and the inclusionary housing requirement. The report can be found here.

In the 2015 election, San Franciscan's responded to the community's worsening housing crisis through the ballot box. Propositions A, K and D, all of which support the production of housing affordable to low to middle income households, passed on November 2015. Proposition A authorized the city to issue up to $310 million in bonds to fund affordable housing programs. Proposition A is expected to support the renovation and construction of 30,000 affordable units over the next four years. Proposition K expanded the target income levels of housing developments allowed on surplus lands to include households earning up to 150 percent AMI. Proposition D authorized increased building height for a mixed-income development called Mission Rock, which is expected to produce 1,500 housing units, 33 percent of which will serve low to middle-income households.

Vancouver, British Columbia

Laneway houses, a type of accessory dwelling unit, have been promoted in Vancouver as an option to allow middle income households to live in areas they could not otherwise afford. According to a December 2015 article in Citiscope, the city has received nearly 2,000 applications in the six years since laneway houses have been allowed, 85 percent of which have been constructed. Factors that have helped to promote the laneway house include elimination of neighbor approval requirements and eliminating the owner occupancy requirement. The city also provides a how-to guide that serves to help residents interested in building laneway houses by providing an overview of laneway houses, lot eligibility, and design requirements. In Vancouver, laneway houses are allowed in all single-family residential zones, one residential two-family zone and one multiple dwelling unit zone.

Due to the popularity of the laneway house, Vancouver recently launched a laneway apartment option that allows mini apartment buildings up to six stories tall along lanes in a neighborhood chosen for its scale. Four projects were in review at the time of this writing, but had not yet been built.

HOUSING BOULDER WORKING GROUP SUMMARY
MAINTAIN THE MIDDLE

GOAL: Provide a greater variety of housing choices for middle-income families and Boulder's workforce.[1]

KEY THEMES:

- The group discussed the middle income data at length and requested additional information. This can be found on the updated Fact Sheet for Maintain the Middle. They ultimately concluded, that although "middle income" can be difficult to define, key takeaways are that there has been a loss of middle income households and there's a gap in available housing "between the extremes," between low and high incomes. One member advocated a price elasticity study to determine whether increasing housing supply actually makes housing significantly more affordable given the effect of increasing number of jobs on the cost of housing.

- In regard to evaluating tools, the group discussed the importance of identifying any tool's costs and benefits and also considering its impacts on everyone, including current residents. The possibility was brought up of putting any new initiatives to a popular vote. The group agreed that broad community support should be one of the tool screening criteria.

- Additionally, the group favored tools that would provide a variety of housing choices to meet the diverse needs of middle income people, would support alternative transportation and would be sustainable.

- The group did "thumbs up" polling on two fundamental questions that could influence their individual thinking about each tool:
  - Do you generally support tools that increase the supply of housing, or tools that focus on preserving existing housing and its affordability, or a combination?
    All eight members present at the meeting (four absent from meeting) gave thumbs up to a combination. One additional member not present at the meeting provided a written comment opposed to increasing the housing supply unless 1) new development pays its own way for all facilities and services it uses, 2) the city stops creating additional demand for housing by adding more employment space, and 3) middle income affordability is maintained over time.

  - Do you think city funds should be used to subsidize middle income housing, or should that funding come from other sources, or a combination?
    Five of eight members present gave thumbs up to a combination and three others gave thumbs up to only non-city funding. An additional member not present at the meeting provided a written comment that impact fees on development should pay 100 percent of

[1] On July 28, 2015 City Council adopted changes to the Maintain the Middle goal proposed by the working group. This change struck the following language from the beginning of the goal, "Prevent further loss of Boulder's economic middle by preserving existing housing"

HOUSING BOULDER WORKING GROUP SUMMARY
MAINTAIN THE MIDDLE

the true cost of providing the middle income housing for which the development creates demand, and that any city funding should be spent on only permanently affordable units.

SHORTLIST OF TOOLS FOR FURTHER CONSIDERATION:
The group "dot voted" (nine of 12 members) to create this short list of tools for further consideration, with the following comments:

Land Use Designation and Zoning Changes

Cooperative Housing

- Co-Housing only got one dot (voting was limited to five dots each person), but should be considered part of Co-op Housing

Occupancy Limits

- Already happening, make it legal and better enforce nuisance code
- Could be treated as a type of cooperative housing, or could be differentiated from it
- Makes better use of existing houses and densities, and is a good use of land

Height Limit

- Could mean adding more height in general throughout city by adding one or two stories to existing one-story buildings; and/or could mean allowing up to 55' in select places or even over 55'
- Higher buildings are more energy- and land-efficient
- Needs to be considered in conjunction with density and setbacks

Accessory Dwelling Units/Owner's Accessory Units

- Require them to be permanently affordable
- Look at the whole range of amendments to current restrictions, e.g., the current size limit numbers seem arbitrary

Bonuses for Higher Affordability and Certain Housing Types

The group agreed (eight of 12 members present) that of the above tools, these would have the most impact:

- Land Use Designation and Zoning Changes
- Occupancy Limits
- Height Limit

Also, individual members were asked to state their favorite one or two tools and why; their responses are posted online under Meeting #4 Notes.