The Case for Mixed-Income Transit-Oriented Development in the Denver Region

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EXECUTIVE SUMMARY

The passage of the "FasTracks" ballot measure by metro Denver voters in 2004 signaled the start of a new era of transportation, growth and development in the area. FasTracks has terrific potential to deliver on its promises of reduced congestion, livable neighborhoods and greater economic competitiveness, but its success is dependent on the kind of development that grows up around new and existing transit stations.

Well-planned "transit-oriented development" (TOD) can foster greater use of FasTracks light rail by encouraging housing, retail and office developments in the districts around transit stops. Incorporating affordable housing into TODs presents opportunities to meaningfully address the region's growing affordability crisis by tackling housing and transportation costs simultaneously—while expanding access to jobs, educational opportunities and prosperity for the many households living in the Denver region.

By offering truly affordable housing, a stable and reliable base of transit riders, broader access to opportunity and protection from displacement, mixed-income TOD holds the potential to address the problems of worsening congestion, rising unaffordability and the growing gap between lower income and wealthier residents in the region.

This study reviews the demand for housing near transit; explores the benefits of mixed-income, transit-oriented neighborhoods; analyzes the barriers to creating such communities; offers an array of tools for overcoming those barriers; and applies those tools in the context of four planned transit station areas in metro Denver.

Demand for Housing Near Transit

Demographic trends and changing housing preferences are converging to create new demand for housing near transit stops. While only about 45,000 households in metro Denver live within one-half mile of a transit stop today, the creation of FasTracks means that, at a conservative estimate, potential demand for such housing could grow to 155,000 households by 2030—a *344 percent increase*. At least 40 percent of that growth is expected to come from low-income households, defined as households earning below 80 percent of area median income, or $51,600 for a family of three in 2006.

The potential demand for housing in TOD is likely to exceed the number of homes that can be developed in transit districts. Consequently, there is considerable risk that virtually all new development near transit in the region will be unaffordable to lower income households. Additionally, new or enhanced transit service could displace existing residents of currently low-income and mixed-income neighborhoods as transit proximity makes those neighborhoods more desirable.

Currently, only luxury housing projects can afford to absorb the time, uncertainty and cost of risk inherent in TOD in the Denver region. Absent deliberate policy actions to reduce costs and make TOD more inclusive, it will be easiest for developers to respond to demand from moderate and high-income market segments exclusively, particularly aging baby boomers and younger, childless professionals, further minimizing opportunities for low-income families in the area.

Benefits of Mixed-Income Transit-Oriented Neighborhoods

- *Provide truly affordable housing* by minimizing transportation costs in relation to household income. Nationally, transportation is the second largest household expenditure after housing.
- *Increase ridership* by providing easy access for those individuals who use transit the most. Low-income households in Denver are four times as likely as higher-income households to use transit.
- *Broaden access to opportunity* by connecting lower-income households to opportunities both in their own neighborhoods and others in the region that can be easily reached on the transit system.
- *Alleviate gentrification pressures near transit stations* by making conscious decisions to preserve opportunities for affordable housing near transit stops, thereby enabling low-income households to benefit from the transit investment in their neighborhoods.
- *Increase employers' access to metro workforce* by enabling lower-wage workers—who make up a large percentage of the metro area workforce—to live in areas with good transit access.

Current Barriers to Developing Mixed-Income Housing at TOD Sites

- Land prices are high at these sites.
- Affordable housing developers lack capital to buy and hold land for several years in anticipation of the arrival of transit in the future.
- Transit improvements can cause displacement of existing low-income residents by spurring increases in land and housing prices.
- Subsidies for affordable housing have decreased in recent years because of federal cutbacks and state budgetary constraints.
- Mixed-income developments require more complex financing structures than those aimed at a narrower audience.

- Inclusionary zoning ordinances have limited reach in the Denver region, meaning that policy makers have, at present, little authority to require the creation of mixed-income housing at TOD sites.
- TOD sites frequently require rezonings and land assembly, which can lead to lengthy—and expensive—acquisition and permitting processes.
- TOD development involves expensive infrastructure which can be beyond the capacity of affordable housing to fund and sustain.
- Significant residential density in TODs is necessary to offset high infrastructure costs, but can generate NIMBY opposition.
- Parking requirements can be unnecessarily high, making development more expensive and thus less feasible for affordable housing providers.

Tools to Overcome Those Barriers

- Create a TOD Affordable Housing Acquisition Fund to provide the "patient capital" necessary to finance the acquisition and holding of land or existing buildings near transit for affordable housing purposes.
- Use RTD joint development powers to permit RTD to buy and hold property around transit stops—and, eventually, develop its own mixed-income housing on those parcels.
- Modify Colorado's Low Income Housing Tax Credit program to offer incentives for developing mixed-income housing at TODs.
- Encourage greater use of Metro Mayors Caucus TOD Fund by providing additional incentives to developers of affordable housing.
- Increase the number and effectiveness of local inclusionary zoning ordinances in order to generate below-market-rate rental units and lengthen the time requirement for affected properties beyond 15 years. At the same time, modify existing ordinances such as Denver's to make them more attractive and less burdensome for developers.
- Create incentives for station area planning and zoning to decrease the time, cost and risk required to develop affordable housing at TODs and minimize the risk of displacement of low-income households.
- Create a regional TOD infrastructure fund with affordable housing incentives to offset planning and development costs.
- Leverage tax increment financing (TIF) for affordable housing—e.g., by dedicating a portion of the TIF to cover infrastructure costs for affordable housing or by requiring affordable housing over and above that required by existing ordinances—in station areas where housing is envisioned and TIF is proposed.
- Use metropolitan districts to create funding for transit zone infrastructure in return for the incorporation of affordable housing as part of the resulting TOD.

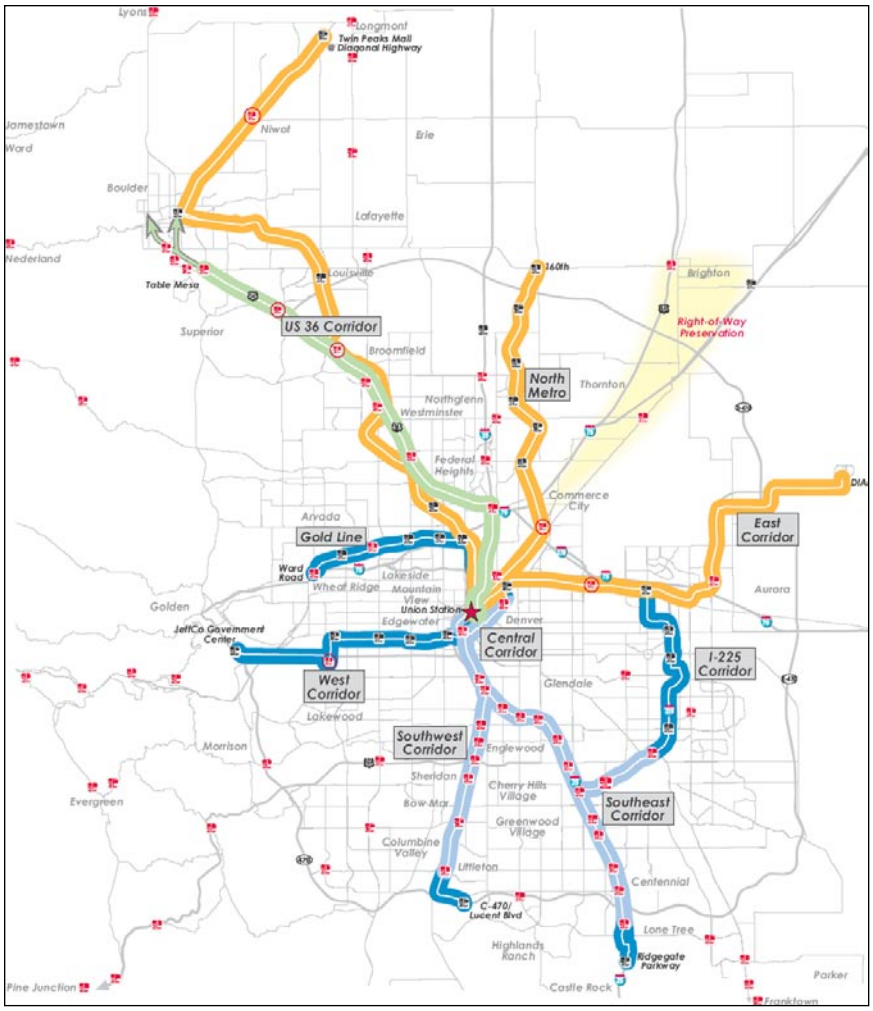
- Reduce parking requirements in transit areas to reflect the greater reliance on transit, thereby lowering the cost of housing development.

Time is of the essence. As this report makes clear, mixed-income TODs will not happen by themselves. The creation and preservation of diverse housing options in transit corridors will require proactive planning and policy development—and soon, because the more time that elapses, the more difficult it will be to create and preserve mixed-income neighborhoods. As land near transit is purchased and locked away for housing targeted to the upper end of the market, a once-in-a-generation opportunity for transit-oriented development that serves the needs of the entire community will be lost.

INTRODUCTION

In November 2004, voters in the Denver Metropolitan Region passed the "FasTracks" ballot measure. The half-cent sales tax revenues will fund the construction of five new transit lines in 15 years, representing a $4.7 billion regional infrastructure investment. This ballot measure was sold to the voters, in part, on two arguments: that the region needs transportation alternatives to diminish congestion and remain economically competitive, and that clustering growth around transit stations could stimulate development of the type of neighborhoods metro Denver residents desire. Indeed, the 119 miles of new tracks and the 70 new transit stations (illustrated in Figure 1) will provide an unparalleled level of transit access for a region of this size and, as such, could fundamentally reshape growth patterns in the region.

Figure 1: FasTracks Rapid Transit Corridors



FasTracks has terrific potential to deliver on its promises of reduced congestion, livable neighborhoods and greater economic competitiveness, but its success hinges on the type of development that grows up around new and existing transit stations.

Much has been written about the importance of transit-oriented development (TOD) in leveraging transit investments for greater ridership. TOD fosters greater use of a transit system by creating districts within walking distance of transit stations that offer appropriate density, a diversity of land uses and pedestrian-oriented design.

Less discussed, but equally important to FasTracks' success, is ensuring that housing built within walking distance of transit offers opportunities to a broad spectrum of income levels. ***A range of housing choices in TODs—"mixed-income TOD"—is crucial to realizing the full potential of the Denver region's FasTracks investment.***

Mixed-Income TOD

Mixed-income housing involves blending a range of housing prices in a single development or neighborhood. "Mixed-income TOD" takes this blending to the district level.

A critical element of mixed-income TOD is the inclusion of affordable housing for low- and moderate-income households. This housing generally serves households earning less than 80% of area median income (AMI), approximately $50,000 for a three-person family in metro Denver in 2006.

Mixed-income TOD requires deliberate efforts to ensure neighborhood housing is inclusive and accessible to a broad spectrum of incomes. In many instances, it may be desirable to place affordable and market-rate units within a single building or development. This can be an effective strategy for removing the stigma that often is associated with affordable housing. In other contexts, it may be more appropriate to include affordable housing developments alongside market-rate developments. In either instance, it is important to establish clear goals for income mixing to ensure the vision is achieved.

Mixed-income TOD presents opportunities to meaningfully address the region's growing affordability crisis by tackling housing and transportation costs together – while expanding access to jobs, educational opportunities and prosperity for the range of income groups living in the Denver region. By offering (1) *truly affordable housing,* (2) *a stable and reliable base of transit riders*, (3) *broader access to opportunity* and (4) *protection from displacement*, mixed-income TOD holds the potential to address the seemingly intractable problems of worsening congestion, rising unaffordability and the growing gap between lower-income and wealthier residents in the region.

DEFINING TRANSIT-ORIENTED DEVELOPMENT (TOD)

Transit-oriented development typically is described as a mix of uses at various densities within a half-mile radius, or walking distance, of a transit stop. Transit-oriented development (TOD) is more than simply a project next to a transit station – it is the district surrounding the station.

Development near transit in the Denver region, however, demonstrates that TOD cannot be defined solely by a prescribed set of densities or mix of uses. Those who live in Denver's LoDo neighborhood, for example, use transit more often and drive less than their counterparts in suburban communities even though the latter may live just as close to a transit station. The reason is that many close-in neighborhoods combine density with walkable street patterns, access to transit, neighborhood amenities and a mix of nearby retail and jobs, and also because the demographic composition of these neighborhoods is so varied. Suburban neighborhoods are more likely to sit behind walls with just one entrance or to be separated by wide thoroughfares filled with fast-moving traffic. Even though suburban densities can be comparable to those of the city, residents are far more likely to drive for most trips.

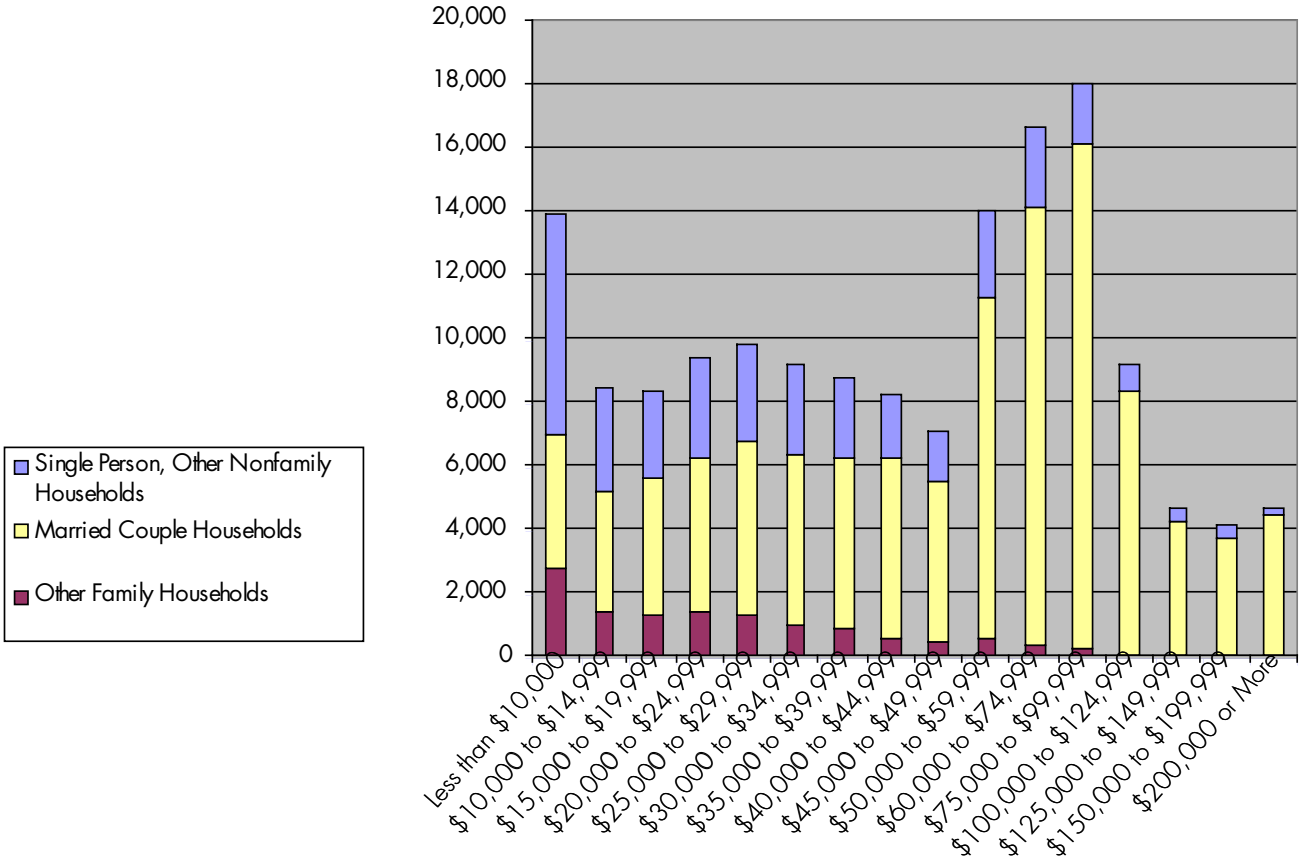
The measures of high quality TOD are simple: Can parents drop a child off at daycare on the way to work? Can errands be done on foot? Is it possible to take a business client to lunch without having to use a car? The types of uses in a mixed-use TOD must be carefully matched with the function of the station and the needs and desires of those who live and work nearby. Indeed, "place-making" may be almost as important to TOD as transit.

Growing Demand for Housing Near Transit

The Denver area consumer market is ready for transit-oriented development. According to a study by the Center for Transit-Oriented Development (CTOD), demand is strong and, as the transit system grows, demand also will grow.[1] In fact, the types of households that tend to seek out TOD—singles, couples without children, the elderly and low-income minority households—also are the types of households that are projected to grow the most in this region over the next 25 years.

While there are roughly 45,000 households in the region today that live within one-half mile of an existing light rail stop, a conservative estimate is that by 2030 potential demand for housing near transit could more than triple, to nearly 155,000 households (see Figure 2). On average, this would translate into potential demand for more than 1,600 additional units in each station area—more than may even be feasible for some districts.

Figure 2: Projected Demand for TOD in Metro Denver, 2030



Source: CTOD, Strategic Economics, 2006

[1] CTOD, *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit*, April 2005.

At least 40 percent of this demand for TOD is likely to come from low-income households, defined as those who had incomes below 80 percent of area median income (AMI) or $51,600 for a family of three in 2006 (see Table 1 for an overview of AMI levels).[2] Considerable demand will also come from singles and couples without children making $60,000 to $125,000 annually.[3]

Table 1: Income Expressed as a Percentage of Area Median Income (AMI) for Denver-Aurora MSA

AMI Percentage	2006 Maximum Income (3-Person Household)
30%	$19,350
50%	$32,250
80%	$51,600
100%	$64,500

Source: U.S. Dept. of Housing and Urban Development

Growing overall demand for TOD is a reflection of converging demographic trends, as well as changing housing preferences. Consumers are choosing smaller, more compact housing in neighborhoods where shops and services are within walking distance and where high quality transit service is a viable alternative to driving.

"Among the newest players now moving into urban housing are tract homebuilders such as Toll Brothers, Inc and Los Angeles' KB Homes…Both have spent decades trying to lure folks out of the city. Now…those same companies are suddenly making a reverse commute of their own by gobbling up urban properties at a fevered pace."

– BusinessWeek, Sept. 20, 2004

A Closing Window for Mixed-Income TOD

Despite the demand from lower-income households, ***there is considerable risk that virtually all new development near transit in the region will be unaffordable to such households***. Additionally, new or enhanced transit service could, in fact, displace residents in existing low-income and mixed-income neighborhoods.

Currently, only high-end housing projects can afford to absorb the time, uncertainty and cost of risk inherent in TOD in the Denver region. The cost of land in and around existing and future transit stations is rising due to speculation, and land frequently is broken into small parcels, making it difficult for developers to find sites large enough to produce high-density housing at prices affordable to both the developer and the potential residents.

Further, TOD is not yet supported by appropriate zoning codes in many communities, leading to lengthy and costly permitting processes and unnecessarily high parking standards. Both the entitlement delays and

[2] CTOD, 2006; US Census, *American Community Survey*, 2004.

[3] CTOD, 2006. CTOD's demand analysis was calculated by combining demographic information on households that have shown a preference for living in Denver's transit-oriented communities with regional population projections and research on national real estate and consumer trends. For more information on this methodology, see: CTOD, *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit*, April 2005.

the high parking requirements increase construction costs. The inclusion of an affordable housing component would add to the complexity of the TOD process. Given this reality—and the fact that overall demand for TOD is likely to exceed the number of units that can be developed—it is likely that most new development will target higher-income households.

As land near transit is purchased and locked away for housing targeted at the upper ends of the market, a once-in-a-generation opportunity for inclusive TOD will be lost.

The factors inhibiting the general TOD market make it even more difficult to deliver mixed-income housing near transit stations. Absent deliberate steps to reduce costs and make TOD more inclusive, it will be easiest for developers to respond to demand from moderate and high-income market segments exclusively, particularly aging baby boomers and young and childless professionals.

Time is of the essence. As land near transit is purchased and locked away for housing targeted at the upper ends of the market, a once-in-a-generation opportunity for inclusive TOD will be lost. Already, this window has begun to close, as speculation near transit stations raises land prices and building begins around station areas.

A focused effort will be necessary to facilitate development near transit that is affordable to a broader range of incomes than the market otherwise would provide. Policies, programs and financing tools that support the creation of mixed-income communities surrounding transit stations are urgently needed to ensure that the benefit of the formidable FasTracks investment is leveraged equitably and efficiently.

BENEFITS OF TOD

Transit-oriented development has the potential to provide residents with improved quality of life and reduced household transportation expenses, while creating stable neighborhoods that minimize environmental impacts, promote healthy lifestyles and deliver real alternatives to traffic congestion. Ultimately, it delivers benefits to many stakeholders.

Benefits to Transit Agencies:

- *Greater ridership.* Well-designed transit-oriented development offers a diversity of housing choices and land uses within walking distance of stations, thus generating increased ridership by making the combination of transit and walking a viable alternative to driving.

- *Lower-cost ridership.* TOD dwellers and workers are the least costly riders to bring to transit, because they don't require the additional and considerable costs of new parking facilities, additional road space and operating costs associated with feeder buses.

- *Value capture.* Through careful joint development, transit agencies can use transit-oriented development to capture the increases in land value that result from public investment in new rail lines. TOD reduces the need for surface parking lots and auto-related infrastructure and, instead, allows for uses that provide more revenue to transit agencies (and local governments).

Benefits to Employers:

- *Less absenteeism.* Traffic congestion not only contributes to long commutes, but it also can cause commuters to be late for work and increase absenteeism, which can be a big cost to employers. Greater transit ridership can reduce absenteeism, tardiness and turnover, given the ability of fixed-guideway transit systems to run on a more regular schedule without the uncertainties of traffic accidents or other unforeseeable events.

- *Greater workforce access and retention.* When transit becomes a more viable option for a broader spectrum of the region, employers gain access to a larger and more diverse workforce. This makes it easier to recruit new employees, and retain employees over time. In light of the high costs of finding and replacing employees, this amounts to real savings for businesses.

Benefits to Regions:

- *Reduced air pollution.* Greater transit ridership generated by TODs improves overall air quality. Equally important is that there are fewer "cold starts"—a significant contributor to regional air pollution—when more people walk or bike instead of drive to transit.

- *Focused growth.* TOD helps focus growth into targeted areas, diminishing pressure for growth at the edge of regions and cutting down on unsustainable development patterns and loss of open space.

Benefits to Households:

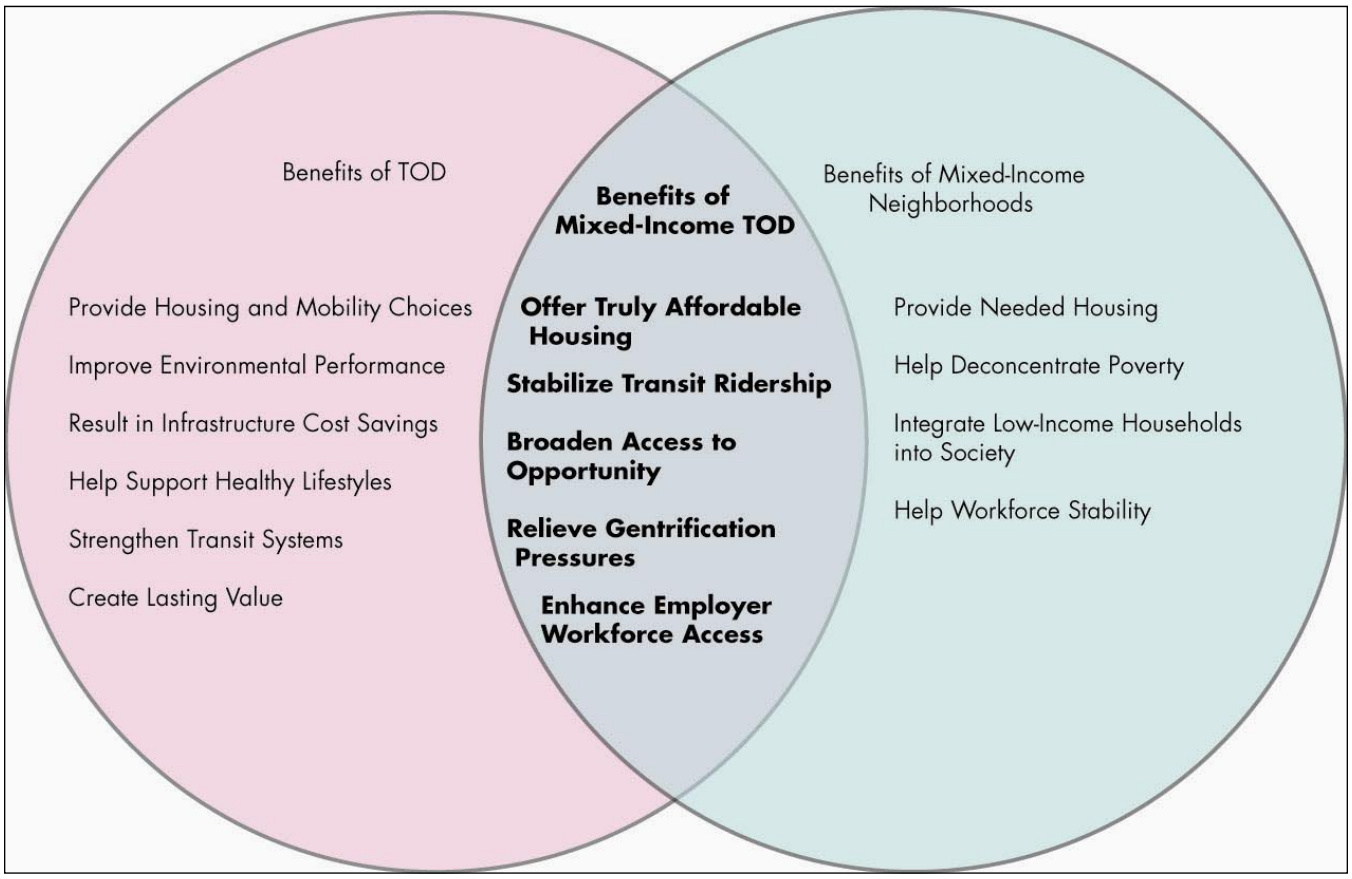
- *Healthier neighborhoods.* Neighborhoods that make it feasible to walk or bike to essential destinations are not only more appealing and socially connected, but they also promote healthier lifestyles.

- *Opportunities for lower transportation expenses.* As discussed elsewhere in this report, TOD districts enable households to reduce automobile expenses, both for commute trips and non-work trips. This can yield substantial savings, particularly for lower-income households.

JOINING FORCES: THE BENEFITS OF MIXED-INCOME, TRANSIT-ORIENTED NEIGHBORHOODS

There are significant benefits to expanding transit-oriented development and furthering mixed-income communities. To date, stakeholders generally have promoted and pursued each goal separately. When combined, however, the concepts of mixed-income neighborhoods and transit-oriented development create synergies that allow stakeholders to more fully achieve their respective objectives. These synergies create five new benefits shown in Figure 3 and described in more detail on the following pages.

Figure 3: The Synergies of Combining Mixed-Income Neighborhoods with TOD



BENEFIT 1: Truly Affordable Housing

Many households in the Denver region are feeling the pinch of rising housing costs and diminishing affordability. This has particularly affected the lowest-income households—those earning less than 30 percent AMI, or slightly less than $20,000 for a three-person household in 2006. Currently, many lower-income households in the Denver region trade higher transportation costs for lower housing prices by "driving to affordability." Mixed-income TOD pairs lower-cost housing with lower transportation costs, thus creating the opportunity for genuine affordability. Locating affordable housing near transit, especially for households outside the center city, ensures that the benefits of low-cost housing are not offset by high transportation costs.

The Story Behind Rising Unaffordability

Mixed-income TOD pairs lower-cost housing with lower transportation costs, thus creating the opportunity for genuine affordability

During the 1990s, a series of factors drove up Denver area housing costs at rates that outpaced local growth in wages and family income. Many of these trends are expected to continue or even accelerate in the coming decades, diminishing the likelihood that the market will be able to provide affordable housing at TOD sites without public incentives and/or policy interventions.

A primary contributor to rising unaffordability was the economic boom of the 1990s. In the mid- and late-1990s, telecommunications and other high-tech sectors experienced significant growth, fueling economic expansion and a job growth rate of three-to-four percent per year. The thousands of households that moved to the Denver metro area to take these jobs led to a surge in regional population that continued until 2002 (after which the region's population grew less quickly).[4] The growth in high-wage jobs triggered low-wage service job expansion, as well.

New households seeking jobs had an immediate and significant impact on housing demand. This surge in demand has not been met by a similar growth in housing supply appropriate to a spectrum of incomes, especially for homeownership housing and very low-income rental.

Indeed, while median family income increased 54 percent between 1989 and 2000, average rents, condominium prices and home prices grew even more rapidly—up to 2.5 times faster—making housing increasingly less affordable.[5]

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[4] James Coil Researching and Consulting, *An Analysis of the Downtown Denver, Colorado Rental Housing Market*, January 2005.

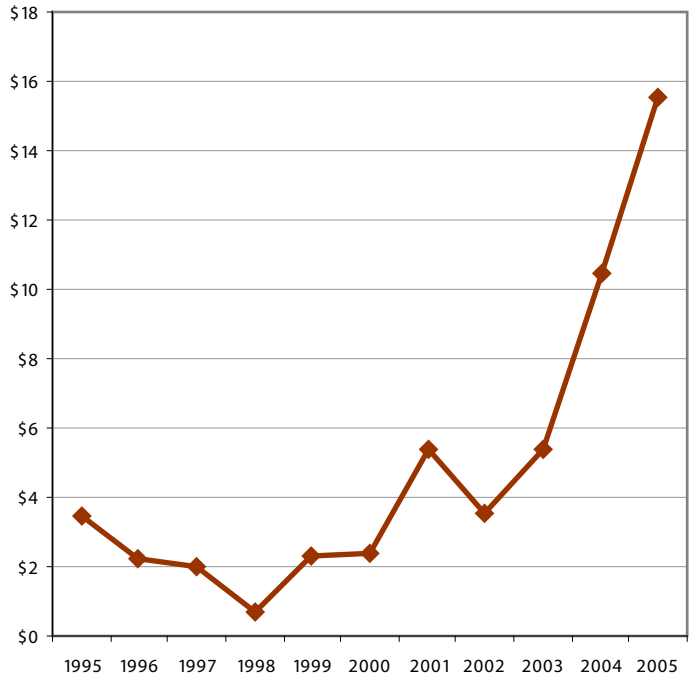
[5] Ibid.; also, data from the U.S. Dept. of Housing & Urban Development.

Other factors contributing to disproportionate increases in housing costs include:

- A large influx of retirees with incomes divorced from the local job market;
- Intensified competition for affordable units as a result of sustained population growth;
- Localized land scarcity, which pushes affordable housing farther and farther out to areas poorly serviced by transit or other existing infrastructure;
- Rising land prices (see Figure 4), particularly at TOD sites; and
- The increasing cost of building housing, in part due to rising infrastructure fees and longer permitting processes, as well as significant increases in material costs.

Between 1980-1982 and 2001-2003, the top fifth of earners in Colorado saw average income grow nearly three times faster than did those in the bottom fifth of earners

Figure 4: Rising Residential Land Prices ($/sq. ft.) in Metro Denver



Source: CB Richard Ellis, 2006.

The Lowest-Income Households are Affected Most

Households earning less than 30 percent AMI (approximately $20,000 per year) have been hardest hit by ongoing housing pressures in the Denver region. In 2004, there were more than 91,000 households in the region that fell within this category.[6] During the recent economic downturn, which has seen a considerable drop in average rents, housing in some parts of the region has come within reach of households earning as low as 49 percent of AMI (see Table 2)—more affordable, but still out of reach for the lowest-income households.

It won't be long before we get back to the situation we had in 1999 and 2000 when there was a tremendous need for lower-income housing

However, with economic recovery in sight (and with relatively little affordable housing being produced in the past few years, particularly in such areas as Douglas County), rents soon will pull out of reach for even this income demographic. As one housing economist said, "It won't be long before we get back to the situation we had in 1999 and 2000 when there was a tremendous need for lower-income housing."[7]

Table 2: 2006 (third quarter) Median Rents vs. Area Median Income for Denver Metro Area

County	Median One-Bedroom Rent	Annual Salary Needed to Afford It	Corresponding Percentage of AMI (2-person household)
Adams	$706	$28,240	49%
Arapahoe	$707	$28,280	49%
Boulder	$835	$33,400	56%
Denver	$722	$28,880	50%
Douglas	$843	$33,720	59%
Jefferson	$749	$29,960	52%

Source: Apartment Association of Metro Denver, Denver Metro Apartment & Rent Survey, Third Quarter 2006

Meanwhile, affordable homeownership options remain limited. A high percentage of metro Denver households are unable to buy a home, because few units are priced at levels affordable to those making less than 80 percent of AMI. (Table 3 offers some perspective on this.) And, in many instances, the units that are affordable are smaller, older and located in less desirable locations.

[6] U. S. Census, *American Community Survey,* 2005.

[7] Interview with Gordon Von Stroh, March 2006.

Table 3: Home Prices vs. Median Family Income* in the Denver MSA

2005 Median Home Price	$245,000
Household Income Needed to Afford Median Home	$75,800
Necessary Income as a Percentage of Area Median Income	106%

Sources: Colorado Blue Ribbon Panel on Housing: Final Report, March 2006; HUD, FY2005 Income Limits, 2005.

* Note that HUD-reported area median family income is used here, in order to compare 2005 income levels with 2005 home prices. Median family income is typically higher than median household income.

Transportation is the second-largest household expenditure after housing

Crucially, public subsidy funding for affordable housing has dwindled dramatically in the past five-to-seven years. Much of this decline is attributable to shrinking levels of federal pass through funding—the City and County of Denver, for example, has seen its Community Development Block Grant (CDBG) funding fall more than 16 percent since 2001.[8] At the same time, state funding for affordable housing is currently less than 60 percent of the 2000-2001 fiscal year amount.[9]

"Driving to Affordability" Negates Housing Savings

For many households, the amount spent on car payments, insurance, gas, parking and car repairs comes close to their monthly rent or mortgage payment. Many people moving to distant suburbs for cheap housing may, in the end, not save money or build as much wealth as expected because of the high transportation costs they incur as a result of living a long way from jobs.

For lower-income families, this is a particular struggle. Not only do they face housing prices that are beyond their reach, but they also bear a higher burden in transportation costs because these expenditures claim a greater percentage of their household budgets, particularly in auto-dependent areas (see Table 4).

Nationally, transportation is the second-largest household expenditure after housing, and ranges from less than 10 percent in transit-rich areas to nearly 25 percent in areas in which there are few transportation options.[10] In 2005, the cost of driving in the United States was pegged at 52.2 cents per mile, and the annual cost of auto ownership averaged $7,834.[11]

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[8] Interview with Jacky Morales-Ferrand, Director of the Division of Housing and Neighborhood Development, City and County of Denver, March 2006.

[9] Interview with Britta Fisher, Colorado Housing Investment Fund Coalition, March 2006.

[10] CTOD and the Center for Neighborhood Technology (CNT), *The Affordability Index: A New Tool for Measuring the True Affordability of a Housing Choice*, Brookings Institution, Washington D.C., 2006.

[11] American Automobile Association (AAA), *Your Driving Costs*, 2005.

Table 4: Income Spent on Housing and Transportation in Metro Denver

Household Income	<$20,000	$20,000 - $34,999	$35,000 - $49,999	$50,000 - $74,999	$75,000 - $99,999	$100,000 - $250,000
Housing	59%	33%	25%	21%	18%	14%
Transportation	55%	34%	25%	18%	13%	9%
Combined Housing and Transportation	115%[12]	67%	50%	39%	31%	23%

Source: Center for Neighborhood Technology and Virginia Tech University, Housing & Transportation Cost Trade-offs and Burdens of Working Households in 28 Metro Areas*, Center for Housing Policy, Washington D.C., 2006.*

In Denver, average household transportation costs range from $375 to $1,175 per month, depending on the level of transit service available and the proximity to local services and jobs. When transportation costs are analyzed as a percentage of household income, 55 percent of lower-income households (defined as those earning less than $50,000) have above-average transportation costs.[13]

Looking at transportation costs in relation to household income in the Denver region (see Maps 1 and 2), many low-income households are concentrated in areas close to the center city, where transit is most accessible. These households see the lowest absolute transportation costs (although these costs still may be high in terms of percentage of household income)—evidence that transit proximity works. However, in many instances, these lower transportation costs are offset by high housing costs, so that the combined housing plus transportation costs as a percentage of household income are higher for these households than the regional average.

An additional 30 percent—about 140,000—of the Denver region's low-income households live in the moderate, high and very high transportation cost areas.[14] Interviews with affordable housing experts suggest that many of these households are families looking for open space, schools and other amenities not available in areas with lower transportation costs. As a result, these households pay a "transportation penalty" in order to find appropriate and affordable housing.

Overall, 74 percent of lower-income households in the region had combined housing plus transportation costs higher than the regional average.

[12] This figure exceeds 100% of income for several possible reasons. Some households in this income bracket may use Section 8 vouchers, causing housing costs to be reported higher than what is actually paid. Some households also may have income sources that are not reported on the Census form. Further, some households may be spending less on transportation than the transportation model would predict.

[13] Center for Neighborhood Technology, 2006.

[14] CTOD and the Center for Neighborhood Technology (CNT), *The Affordability Index,* Brookings Institution Press, 2006. Note: "Low-income" households are those earning less than 80 percent of area median income.

74 percent of lower-income households in the region had combined housing plus transportation costs higher than the regional average

It will be important to ensure that as transit stations are upgraded through FasTracks investments, existing low-income residents are able to maintain their access to transit rather than being displaced. As jobs continue to suburbanize, transit access will be especially important to lower income households that otherwise would have more difficulty reaching growing employment centers outside the center city.

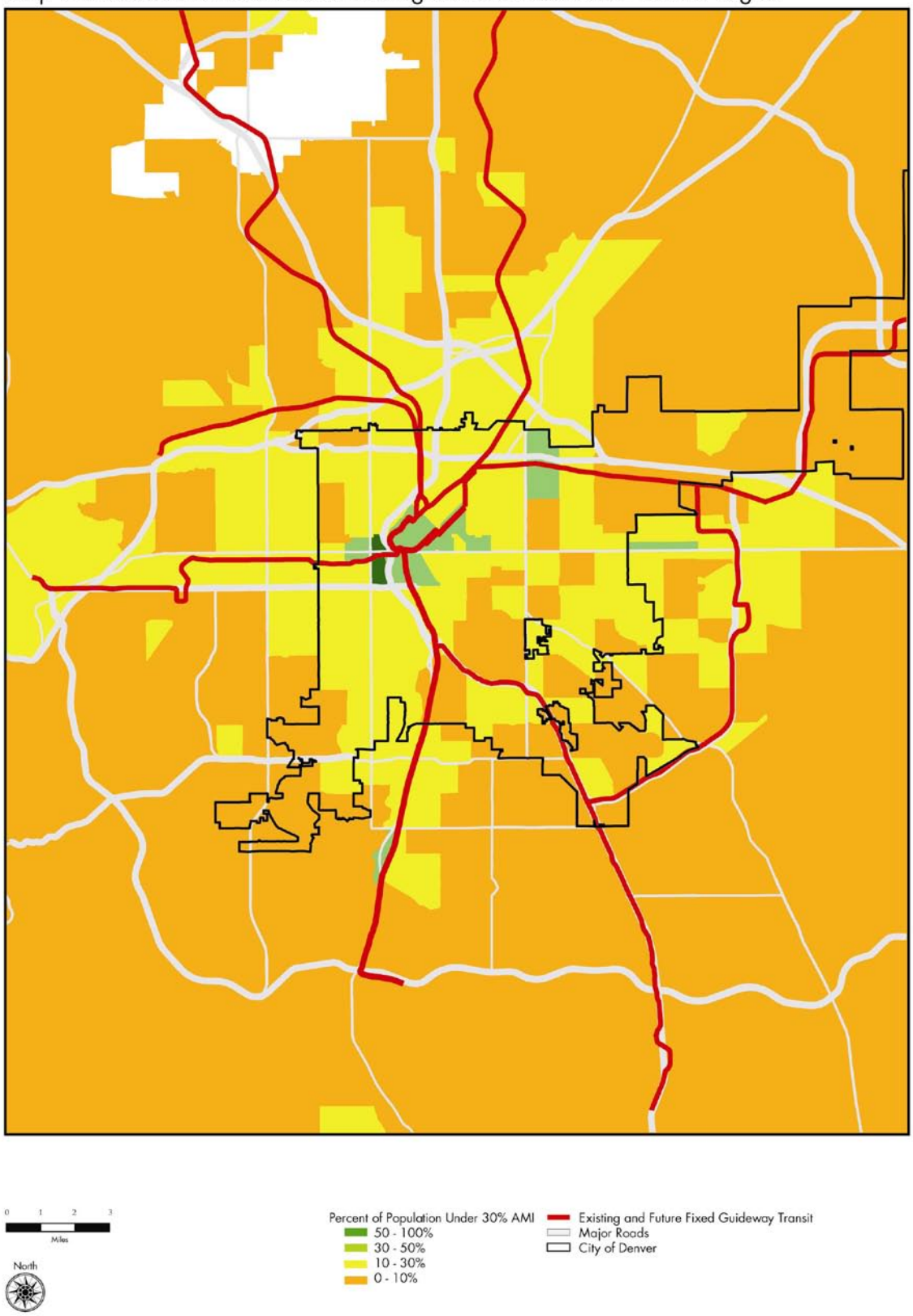
As Maps 1 and 2 also show, household transportation costs are not always driven by household income. Land use and transportation characteristics of a neighborhood—density, walkability, the availability and quality of transit and the accessibility of jobs and amenities such as grocery stores, dry cleaners, day care and movie theaters—are actually more highly correlated to transportation expenditures than simply income and household size.[15] Characteristics of place influence travel demand, helping determine how residents get around, where they go and how much they spend on transportation as much, if not more, than income.

Pairing Affordable Housing with Transit Access

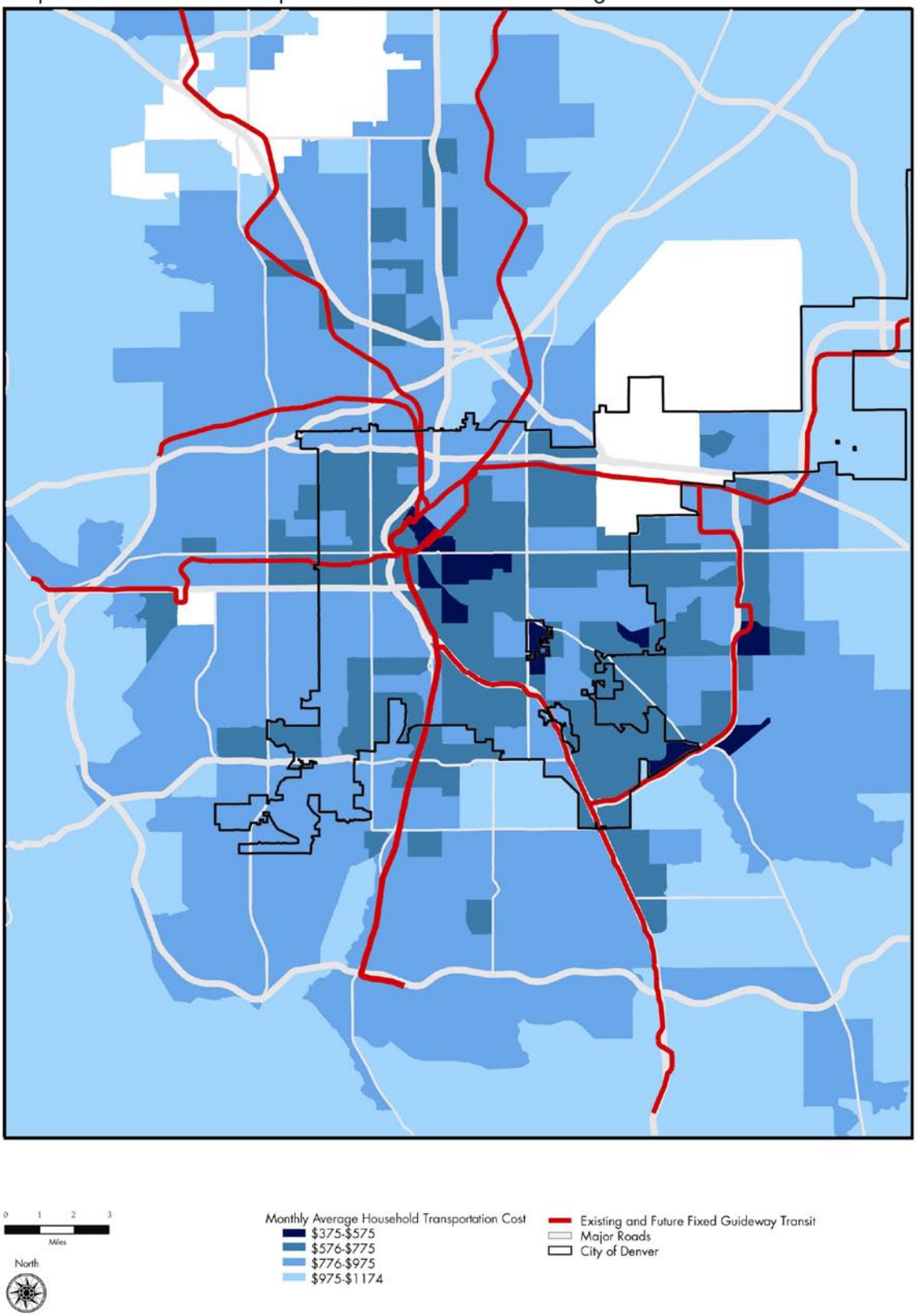
By combining affordable housing with walkable, transit-accessible neighborhoods that reduce reliance on automobiles, mixed-income TOD offers opportunities for genuinely affordable housing for a broad range of incomes.

[15] Data from CTOD & CNT, 2006.

Map 1: Distribution of Households Earning less than 30% AMI – Denver Region



Map 2: Distribution of Transportation Costs in the Denver Region



BENEFIT 2: Stabilizing "High-Percentage" Riders

Chief among TOD's benefits are the dividends paid to transit systems. TOD is one of the most cost-effective mechanisms for stabilizing and increasing transit ridership. According to one recent study, people who live in transit-oriented developments are five times more likely to use transit than is the regional population at large; people who work in TODs are three-and-one-half times more likely to use transit than is the population as a whole.[16] This is particularly true when TODs are developed at stations throughout a transit corridor, ensuring that both origins and destinations of trips are within an easy walk of a transit station.

That said, there is no *guarantee* that residents who rent or purchase homes within a one-half mile walk of transit will give up their cars, especially before TOD proliferates throughout a region.

For this reason, it is particularly useful to a transit operator to preserve or create opportunities for lower-income households to live near transit. Low-income households are more transit-dependent and less likely to own cars than are other income segments. As such, they use transit much more than do other demographic groups.

In Denver census tracts with concentrations of very low-income households, residents are four times more likely to walk or take transit to work, compared with the region (28 percent vs. 7 percent of all households).[17] Because those without a car often use transit for non-work trips as well—e.g., trips to the store, school or recreation—low-income households also play a crucial role in filling seats during "off peak" times. This makes transit service more efficient, while also paying dividends for the region through less congestion.

Mixed-income, transit-oriented development helps ensure that transit's highest percentage riders have access to transit, by placing a range of housing options within walking distance of the station.

Mixed-income, transit-oriented development helps ensure that transit's highest percentage riders have access to transit, by placing a range of housing options within walking distance of the station

[16] Robert Cervero et al, *Transit Oriented Development in America: Experiences, Challenges, and Prospects. Washington*, D.C.: Transit Cooperative Research Program, Report 102, 2004.

[17] U.S. Census, 2000; Strategic Economics, 2006

BENEFIT 3: Broadening Access to Opportunity

Creating housing opportunities for low-income households near transit provides these households with access to regional job and educational opportunities, without having to incur the high transportation costs associated with driving. When moderately priced housing is incorporated into higher-income communities, the benefits are even greater.

There is a growing consensus among policymakers that mixed-income communities produce better economic, behavioral and social outcomes for low-income households than do communities with concentrated poverty.[18] Mixed-income communities enable a broader range of households to live in neighborhoods with well-funded schools and to have access to a wide variety of jobs and stronger city services, including after-school programming and policing.

Transit-accessible mixed-income communities expand access to jobs, education and service. And, where mixed-income TODs offer affordable homeownership options, they also create opportunities to accumulate wealth in appreciating housing markets. In fact, the potential to save money on transportation costs in TODs helps make it more possible for lower-income households to afford the wealth-building opportunities of homeownership in the first place.

In the Denver region, a substantial proportion of low-income households live in neighborhoods with concentrated poverty. These families often want to seek out neighborhoods with better schools, lower crime or better access to jobs, but they can be prevented from doing so because there are few low-cost housing opportunities in communities outside city cores, especially in places that don't also involve high transportation costs.

Mixed-income communities produce better economic, behavioral and social outcomes for low-income households than do communities with concentrated poverty

Mixed-income TOD could provide housing options for lower-income households in higher-opportunity areas of the region. However, an intentional effort must be made to include affordable housing options in these future transit station areas.

Ultimately, mixed-income TOD holds the potential of connecting lower-income households to *place-based* opportunities (through access to better schools and stronger local employment connections) and *regional job* opportunities (through access to rapid, low-cost light rail service linked to the region's major employment centers). Extending both sets of opportunities is crucial to addressing growing income inequality in Colorado: between 1980-1982 and 2001-2003, the top fifth of earners in Colorado saw average income grow nearly three times faster than did those in the bottom fifth of earners.[19] The creation of greater housing choices in future TODs can help close this gap by spreading opportunities more equitably throughout the region.

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[18] Joel Khadduri, "Deconcentration: What Do We Mean? What Do We Want?," *Cityscape*, HUD, Vol. 5, No.2, 2001.

[19] Center on Budget and Policy Priorities, *Pulling Apart: A State by State Analysis of Income Trends*, 2006.

BENEFIT 4: Alleviating Gentrification Pressures Near Transit Stations

As discussed in the previous section, creating mixed-income TODs in higher-income communities can expand opportunities for low-income households. Pursuing mixed-income TODs in areas in which transit runs through existing low-income neighborhoods can create new, high-quality affordable housing to counterbalance the potential displacement of low-income households from existing homes.

Regions with hot housing markets and those in which transit is being planned or is already available share many characteristics:

- Low-income householders are being pushed to neighborhoods with low-quality housing stock;
- Renters are being pushed out of transit zones as absentee owners sell, as rental units are converted to ownership units and as areas in general become more attractive;
- Market-rate developers often are not building to include a range of income diversity; and
- Very low-income renters are most at risk because they are the most difficult population for which to provide housing and are the most transit-dependent.

If no provisions are made to provide new, moderately-priced housing, many low-income residents will be displaced during the redevelopment process

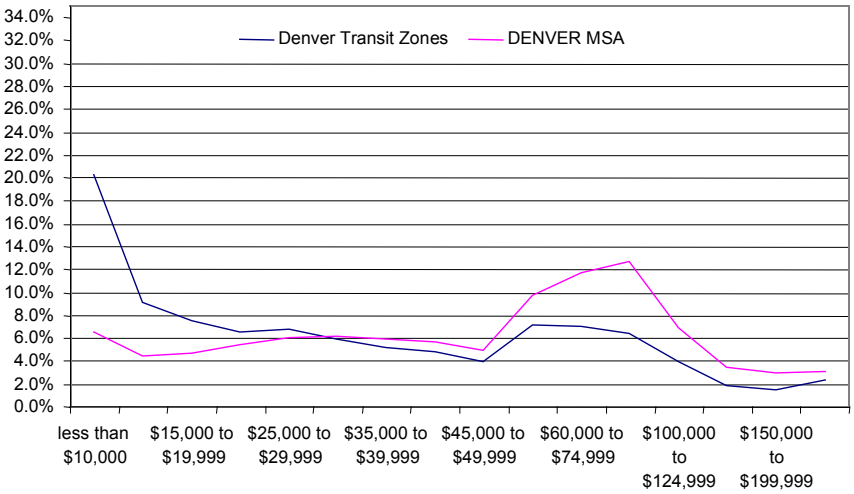
FasTracks will build several new stations in low-income neighborhoods vulnerable to gentrification. An example is the future Sheridan Station (Sheridan Boulevard and 12th Avenue). This station will abut an existing, low-income residential neighborhood with a very high percentage of renters. An estimated 65 percent of households within one-half mile of the proposed station are renters, with many renters living in single-family homes.[20]

As the value of transit is realized within the station area, there will be pressure for single-family homes in the area to revert to ownership. This "gentrification" trend can have the benefit of increasing residential stability and attracting higher-income residents whose presence encourages the development of retail and other amenities.

However, Figure 5 highlights the potential for displacement in transit corridors. The percentage of low-income households currently living in areas slated to become transit corridors is substantially higher than the percentage of low-income households in the Denver Metro area overall.

[20] CBRE, based on 2000 U.S. Census data.

Figure 5: Household Income Distribution, Denver Transit Zones and Metro Denver Transit Zones, 2000



Sources: CTOD, U.S. Census, 2006

Concerted efforts to preserve opportunities for affordable rental and ownership housing will be needed at Sheridan station and similar stations to enable low-income households to benefit from the transit investment in their neighborhood.

BENEFIT 5: Increasing Employers' Access to Metro Workforce

The economic development benefit from FasTracks will be realized only if workers are able to live in areas with good transit access

Economic development officials and employers have been quick to realize the potential benefit of transit as a way to expand access to the metro area workforce. Companies located in transit corridors can draw workers from the entire area served by transit, not just from areas within an acceptable commute by car. Also, productivity is less likely to suffer as a result of traffic delays that contribute to employee tardiness.

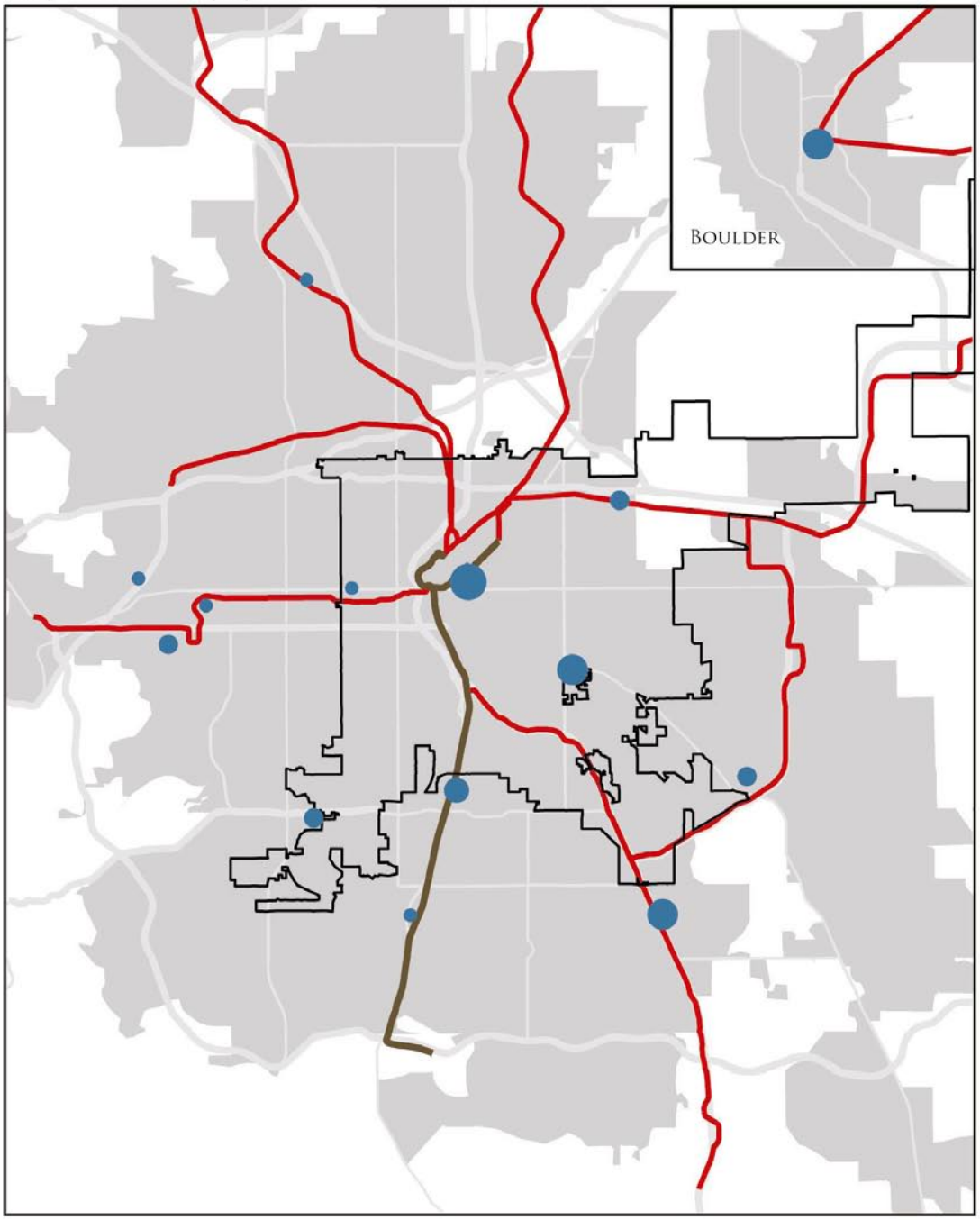
When the FasTracks build-out is complete, almost all of the major employment centers will be transit-accessible (see Map 3). Already, companies have begun to look at opportunities to relocate or expand sites close to transit.

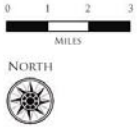
However, this economic development benefit from FasTracks will be realized only if workers are able to live in areas with good transit access. The ability of low-wage workers, in particular, to access the transit system will depend on the availability of affordable housing in transit corridors.

These low-wage workers represent an essential part of the metro-area workforce. In Denver, for example, a recent study found that 33 percent of jobs in the city were "low-wage," defined as having annual incomes under $40,000. This low-wage category included large numbers of retail, administrative and service positions with annual salaries below $30,000. And, the number of low-wage jobs is expected to continue to grow. [21]

[21] BBC Research and Consulting, *2006 Denver Housing Market Analysis*, 2006.

Map 3: Denver Employment Centers in Relation to Transit





Legend

- Existing Light Rail Transit (LRT)
- Future Fixed Guidway Transit
- Major Roads
- City of Denver
- Urbanized Area
- Transit Zones

Employment Centers (Jobs)

- 65,000 - 190,000
- 35,000 - 65,000
- 12,000 - 35,000
- 6,000 -12,000
- 0 - 6,000

CURRENT BARRIERS TO MIXED-INCOME TOD

This section examines the barriers limiting the potential for mixed-income housing near transit in the Denver region. These barriers can be formidable but, as the following section illustrates, they are surmountable. Interviews with key local informants, combined with a review of recent literature, identified 10 key barriers to producing affordable housing at TOD sites:

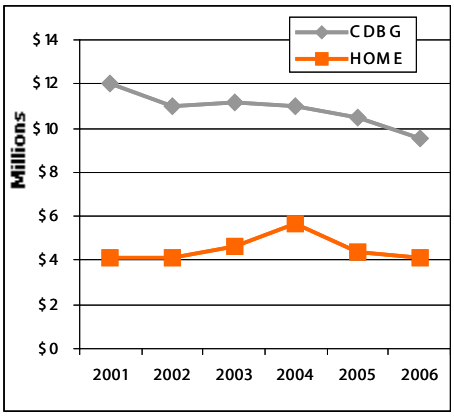
1. Land prices are high at TOD sites. In the Denver region, developers already pay a premium on land at many planned and existing TOD sites. This presents a formidable obstacle to providing housing products at affordable prices. Land prices are being driven up by speculative pressures.

2. Affordable housing developers do not have the capital to land-bank. Acquiring and holding land, also known as land-banking, requires considerable capital, especially when it may be 10 or more years before a rail station is built. This presents steep holding costs for any developer, particularly nonprofit developers that are most likely to produce below-market-rate housing. Further, many traditional funding sources—including Community Development Block Grants (CDBG), HOME Investment Partnerships Program and the new Metro Mayors Caucus TOD fund—cannot be used to purchase and hold land.

3. Transit improvements can cause displacement of existing, low-income residents. Investments near new or enhanced transit stations in existing low-income neighborhoods can cause land and housing prices to rise, ultimately displacing the very residents they are designed to serve.

4. Affordable housing subsidy funding is limited. State and federal public subsidies for affordable housing have dwindled dramatically in the past five-to-seven years, especially for affordable rental housing and projects serving households at less than 50 percent of AMI. HUD cuts have eroded city CDBG funding—an important source of flexible, affordable rental project subsidies (see Figure 6).

Figure 6: Declining CDBG and HOME allocations for the City of Denver



Source: Jacky Morales-Ferrand, Director of Division of Housing and Neighborhood Development, City of Denver.

Meanwhile, Colorado's General Assembly has slashed affordable housing grants, largely as a result of constitutional revenue and spending restrictions (see Table 5).

The City and County of Denver relies on federal and state funding for affordable housing because it does not have a housing fund of its own. It does have one, relatively small-scale mechanism: in-lieu fees collected through the city's inclusionary housing program. These are typically earmarked to provide $5,000 per unit cost offsets to developers that meet inclusionary requirements.

The most significant source of public funding for affordable housing currently is the federal Low Income Housing Tax Credit (LIHTC) program, administered by the Colorado Housing and Finance Authority (CHFA), which funds rental housing development. The majority of tax-credit financed units serve households earning between 50 and 60 percent of AMI.

5. Mixed-income projects require more complicated financing structures. Mixed-income projects generally require additional sources of financing, which can be time-consuming and costly to assemble. At transit sites, this can make an already difficult project even more challenging.

6. Inclusionary housing has limited reach in the Denver region. Nearly half of all FasTracks stations fall in jurisdictions without inclusionary housing policies. Most of the stations that are subject to local inclusionary housing policy are in Denver; the remainder are in Boulder and Longmont. Denver's inclusionary housing ordinance generates only for-sale units, in deference to a 2000 decision by the Colorado Supreme Court (the *Telluride* decision), and serves households at 80-95 percent of AMI. According to Denver officials, developers consistently sell to households at the upper limit of the targeted income range. Denver's inclusionary policy also requires affordable units to remain affordable for just 15 years. After this, they can be resold at market prices.

7. TOD sites frequently require rezonings and land assembly. This can lead to lengthy acquisition and permitting processes, which increase development costs. When developers are saddled with these costs, they have less flexibility to include affordable housing in transit-oriented developments.

8. TOD involves expensive infrastructure. High land prices at TOD sites make significant residential density not only desirable but also financially necessary for projects to "pencil out." This translates into significant infrastructure costs. For example, upgrading the capacity of sewer lines for high-density developments can be particularly expensive, especially in older communities that lack capacity. Generally, affordable housing developers are not capable of taking on these infrastructure costs themselves.

9. Density required in TODs can generate "not in my backyard" (NIMBY) opposition. Many interviewees spoke of an ongoing "phobia of density" in the Denver region. Initial resistance and development delays can be expected with higher-density projects, particularly without an inclusive community planning process at the outset.

10. Parking requirements often are unnecessarily high at TODs. High land prices at TOD sites, coupled with the average cost of providing a structured parking space (over $20,000), means that parking requirements can significantly affect the financial feasibility of TOD projects. Zoning requirements that assume all tenants will have cars add a great deal to the cost of building TOD housing. Moreover, even when zoning codes allow lower parking ratios, pressure from residents in surrounding neighborhoods can lead developers to provide higher levels of parking.

Table 5: Dwindling Resources in the Colorado State Budget

Fiscal Year	Affordable Housing Grants Line Item
1998-1999	$600,000
1999-2000	$2,000,000
2000-2001	$2,000,000
2001-2002	$3,200,000
2002-2003	$0 (ultimately backfilled with mineral impact fee revenue of $3,800,000)
2003-2004	$0 (advocates ultimately donated $13,185 to retain the line item)
2004-2005	$100,000
2005-2006	$115,000

Source: Britta Fisher, Colorado Housing Investment Fund Coalition.

TOOLS FOR GENERATING MIXED-INCOME HOUSING IN DENVER TODS

Building mixed-income housing near transit is possible. Specific tools and policies—proven elsewhere in Colorado and the United States—can help overcome key barriers. We explore 10 of these tools below. Their applicability to Denver was informed by four case study analyses of local transit station areas, discussed at greater length in Appendix 1, "Case Study Analyses of Four Transit Station Areas."

Tool 1: Create a TOD Affordable Housing Acquisition Fund

- **Barriers addressed:** Rapidly increasing land prices near transit stations; risk of displacement in adjacent residential neighborhoods.

- **Benefits:** As FasTracks is developed over the next 10 years, good sites for affordable or mixed-income housing may become unavailable as speculators bid up land prices at transit stations to levels prohibitive for affordable housing, and developers purchase sites for higher-end housing or commercial development. A TOD acquisition fund would enable the early purchase of property around transit—before speculative pressures kick in—to safeguard land for affordable and mixed-income housing. The fund also could acquire existing housing and require that it be kept affordable in perpetuity in neighborhoods that may become gentrified as higher-income individuals and families take advantage of transit proximity.

- **How it works:** A dedicated acquisition fund can provide the type of "patient capital" presently unavailable in the commercial market to finance the acquisition and holding of property near transit for affordable housing purposes. As such, a TOD acquisition fund would fill a crucial financing niche for affordable housing in transit-oriented development. The long time horizon and higher risk profile of acquiring land near transit makes conventional financing sources, such as bank-originated real estate loans, inaccessible for developers. Banks are typically short-term, variable-rate lenders that require a defined and short-term exit strategy for repayment of their loans. However, many FasTracks sites may not be developed for seven or more years, a longer and more unpredictable scenario than many traditional lenders may be comfortable accepting. Further, it is unlikely that sources of take-out financing for an acquisition loan could be identified at the time of land purchase. A TOD acquisition fund would provide the necessary long-term, fixed-rate loans needed to make development of affordable, transit-oriented housing feasible.

- **Where it works best:** A TOD acquisition fund is ideally suited for land purchase in areas where gains from land appreciation will equal or exceed financing and other property holding costs. In cases where appreciation will exceed holding costs, investors see a return and developers are able to lower their overall land costs by buying the property early. Where loan-carrying and property-holding costs negate the savings accrued from early land purchase, early acquisition assistance still would play a valuable role by enabling affordable and mixed-income housing developers to gain a foothold in TODs. This is particularly important where developers would otherwise lock up an entire TOD site for market rate or commercial development.

  A TOD acquisition fund also is well suited for communities in which market forces already are fueling displacement pressures, and where safeguarding affordable housing is necessary to ensure existing residents benefit from future transit access.

- **What would be required for implementation**: Local government commitment to facilitate necessary entitlements; identification of an experienced fund manager; loan funds plus risk capital for loan loss guarantee or credit enhancement.

- **Precedents:** ***South Corridor Land Acquisition Fund, Charlotte, N.C.*** The City of Charlotte has established a land acquisition fund to purchase land near planned stations along its South Corridor Light Rail to ensure mixed-income, mixed-use TOD. The city council capitalized the fund with an initial grant of $5 million. The City of Charlotte Departments of Economic Development, Planning, Neighborhood Development and Engineering work together with Charlotte Area Transit Systems and Coldwell Banker Commercial to manage the fund. The fund collaborated with the City Housing Trust Fund to purchase its first site in the Scaleybark Station area. Development on the site will be required to meet a minimum affordable housing threshold.

  City of Dallas Land Bank, Dallas, Tex. The City of Dallas Urban Land Bank was established in 2002 under special state legislation. The Land Bank is authorized to assemble tax-foreclosed properties and sell them below market prices to nonprofit and for-profit affordable housing developers. It targets properties along planned or existing corridors of Dallas Area Rapid Transit (DART) in the Southern Sector of Dallas. Dallas voters approved $3 million in property acquisition bond funds to provide for the purchase of foreclosed properties. In addition, the Real Estate Council Foundation provided a loan in the amount of $250,000 for expenses related to the purchase and resale of Land Bank lots. The city pays the majority of costs associated with land transfers, using Community Development Block Grant and other funding sources. So far, the Land Bank has purchased 50 parcels and sold 29 properties to Community Housing Development Organizations for affordable housing development.

Tool 2: Use RTD Joint Development Powers for Mixed-Income Housing

- **Barrier addressed:** Rapidly increasing land prices near transit stations.

- **Benefits:** Because of the costs of carrying loans and tying up large amounts of financing, a TOD Acquisition Fund will only be able to acquire a limited number of properties at transit stations. The Regional Transportation District (RTD), however, is in an excellent position to acquire and hold parcels for longer periods of time, which ultimately can be developed as transit-oriented, mixed-income housing. Mixed-income housing would enable RTD to generate income from joint development, while creating low-cost, reliable transit riders.

- **How it works:** The Federal Transit Administration (FTA) requires regional transit agencies to put land acquired with federal funds to the "highest and best transit use." RTD tightly construes FTA requirements to mean that the land RTD purchases must be used initially for construction or operation of a transit line. Other transit agencies have interpreted this more broadly to include support of development projects that generate transit riders, such as low-income transit-dependent populations. FTA has indicated that affordable housing can qualify as a "highest and best transit use" by generating ridership.

  In order to be able to pursue joint development of land for affordable or mixed-income housing, RTD's general counsel has determined that the agency's governing statutes would first need to be amended to include residential development as an allowable purpose for joint development. Once this is done, RTD can pursue joint development of land for mixed-income housing if it makes a legal finding that such housing would constitute a "highest and best transit use" by generating ridership. RTD should be encouraged to work with local jurisdictions to begin identifying specific sites and stations for affordable or mixed-income housing development, and use powers of joint development to implement these plans.

  Though eminent domain may not be required to implement mixed-income TOD strategies at transit stations, RTD's state-granted eminent domain powers are limited to uses that provide a transportation-related purpose. Other transit agencies outside of Colorado have made a finding that transit-oriented development on property owned by transit agencies, including housing, does meet this test.

- **Where it works best:** Sites where RTD already owns or will have to acquire land for station construction/expansion, such as at Sheridan, Wadsworth, 40th and 40th or 10th and Osage.

- **What would be required for implementation:** Action by the General Assembly to modify RTD's governing statutes to allow residential uses on RTD property; executive action by RTD.

- **Precedents:** ***Metro TOD Implementation Program, Portland, Ore.*** Portland's metropolitan planning agency (Metro) uses federal transportation Congestion Mitigation and Air Quality (CMAQ) dollars to acquire and re-sell land to developers with the condition that the land be used for TOD, generally with an affordable housing component.

Tool 3: Modify Colorado's Low-Income Housing Tax Credit (LIHTC) Program to Offer Greater Incentives for Transit-Oriented Mixed-Income Housing

- **Barrier addressed:** Limited subsidies for affordable TOD.

- **Benefits:** Colorado's Low Income Housing Tax Credit (LIHTC) program is the state's largest source of equity funding for affordable housing. Currently, LIHTC allocation procedures do not provide any additional support for affordable housing development in transit corridors. This is of particular concern, because of the risks, complexities and high costs of transit-oriented development. Three key changes would go a long way to making mixed-income TOD more feasible and far-reaching:

  (1) *Waive basis limit test for TOD* – increase the available subsidy for TOD projects.

  (2) *Increase in maximum allotment per developer/project* – enable the type of larger projects needed at TOD sites to benefit from the LIHTC.

  (3) *Points for transit proximity* – help TOD projects score more competitively.

- **How it works:** To be eligible for the LIHTC, a project must provide rental housing and offer at least 40 percent of units at levels affordable to households at 60 percent of AMI or 20 percent at 50 percent AMI. Credits are only available for a project's affordable units.

  There are two types of credits: "9 percent" and "4 percent," both of which are administered by CHFA. Nine-percent credits provide the greatest amount of equity and therefore the deepest subsidies. The total amount of 9 percent credits available annually is determined by a formula based on state population—currently, approximately $9 million in 9 percent credits is available annually in Colorado. Because demand for these credits exceeds supply, 9 percent credits are awarded through a highly competitive process. CHFA's Qualified Allocation Plan (QAP) spells out scoring criteria, minimum thresholds and other regulations for awarding nine percent credits.

  Four-percent credits are used exclusively in conjunction with Private Activity Bond (PAB) financing for housing projects. The amount of 4 percent credits is not capped annually as in the case of 9 percent credits, but 4 percent credits do not offer the same level of subsidy.

Consequently, 4 percent credits work best for projects with lower per-unit costs (such as rehabilitation projects) and those targeting the upper end of the affordable spectrum.

(1) *Waiver of basis limit test for TOD.* The basis limit test is one of the criteria that CHFA uses in determining the amount of 9 percent credits to award to a project. "Basis" refers to those project costs that are eligible for tax-credit subsidy. If project costs for a project exceed the typical costs (i.e., the "basis limit") for a tax credit financed-project, the excess may be excluded from the calculation of the tax credit award.

The purpose of the basis limit test is to prevent scarce subsidies from going to support an unnecessarily expensive development. When applied to TOD or other higher-density development, the basis limit test can artificially restrict the amount of subsidy for which the project is eligible, making the project unfeasible. Higher-density developments are typically more expensive, because of costs associated with concrete (vs. frame) construction, elevators and structured parking. The basis costs for this type of project will be higher than typical tax-credit financed projects in other locations.

By waiving the basis limit test, CHFA would make it easier to develop higher density rental housing in transit corridors. There is precedent for such a move: CHFA already waives the basis limit test for some projects in downtown Denver, where the necessity of providing structured parking drives up project costs.

(2) *Project allotment cap increase.* Colorado's LIHTC program has a current allotment maximum of $1.1 million per developer per year for 9 percent tax credits. This amount can fall well below the subsidy needed to do the type of large-scale projects necessary to make transit-oriented development feasible, and that take full advantage of transit proximity.[22] While the LIHTC cannot close the entire subsidy gap for every qualified affordable TOD project, greater CHFA flexibility can enable more affordable TOD projects to "pencil out."

(3) *Points for transit proximity*. While 28 states have rewards or requirements for transit access, Colorado does not.[23] Following the lead of other states, Colorado could amend its QAP to give extra points to projects located within one-half mile of fixed-guideway transit systems (see "Precedents"

[22] In 2006, Sabino Community Development Resources and Sound Community Ventures modeled affordable housing development at four TOD case study locations in the Denver region. They found that, on average, affordable housing projects near future FasTracks stations were not even able to take advantage of the density permitted by existing zoning due to LIHTC project subsidy limitations.

[23] Global Green USA, *Making Affordable Housing Truly Affordable: Advancing Tax Credit Incentives for Green Building and Healthier Communities*, 2005.

below). This would provide a modest benefit to TOD projects, in the cases where a TOD project is tied for funding with another, non-TOD project.

- **Where it works best:** Larger projects that need greater density to offset large, fixed input costs at TODs.

- **What would be required for implementation:** CHFA board approval of revised Qualified Allocation Plan (which must be approved annually).

- **Precedents:** ***California LIHTC***. California's LIHTC program grants its own basis boosts for projects that take on additional expenses while furthering certain public policy objectives, such as incorporating energy efficiency technology and including day care facilities on site.

  In addition, California's Tax Credit Allocation Committee grants transit-accessible projects up to seven out of 15 total points in its amenities category. Scoring is as follows:

  - Seven points: The project is part of a transit-oriented development strategy where there is a transit station, rail station, commuter rail station or bus station, or bus stop within one-quarter mile of the site with service at least every 30 minutes during the hours of 7-9 a.m. and 4-6 p.m., and where the project's density will exceed 25 units per acre.

  - Six points: The site is within one-quarter mile of a transit station, rail station, commuter rail station or bus station, or bus stop with service at least every 30 minutes during the hours of 7-9 a.m. and 4-6 p.m.

  - Five points: The site is within one-third mile of a bus stop with service at least every 30 minutes during the hours of 7-9 a.m. and 4-6 p.m.

  - Four points: The site is located within 500 feet of a regular bus stop or rapid transit system stop.

  - Three points: The site is located within 1,500 feet of a regular bus stop or rapid transit system stop.

Tool 4: Enhance Appeal of the Metro Mayors Caucus TOD Fund

- **Barrier addressed**: Limited subsidy funding for housing targeted to households earning 30-50 percent of AMI.

- **Benefits**: Partnering with CHFA, the Metro Mayors Caucus has pooled $53 million in tax-exempt Private Activity Bond (PAB) authority to create a fund to finance affordable rental housing development using 4 percent tax credits in TODs. To date, no developers have taken advantage of this PAB pool. This is due in part to the softness of the rental market and the glut of units in the 50-60 percent AMI range. Four-percent tax credits provide just a modest subsidy; in order for deals to work, developers must generally project higher rents—in the area of 60 percent AMI—which are not achievable in the current market. In addition, the modest subsidy simply may not be enough to persuade developers to take on the challenge of developing in transit districts.

  The Metro Mayors Caucus and CHFA already are exploring ways to make this TOD fund more attractive. These include expanding the eligible location from projects within 1,500 feet of a station to projects within one-half mile of a station, as well as encouraging both rehab and new construction. In addition, participating local governments could make this TOD fund more attractive by providing a package of additional incentives for affordable housing development, including putting appropriate zoning in place, expediting development review, reducing fees on affordable units, reducing parking requirements, offering density bonuses or providing additional subsidies, particularly to projects that are seeking to serve lower income levels.

- **How it works**: To receive financial support from the Caucus fund, developers must make either 45 percent of all units affordable to households at 60 percent AMI, or 25 percent of units for households at 50 percent AMI. Qualifying projects receive below-market loans while gaining automatic access to CHFA's 4 percent tax credits. Like the 9 percent credits, these can be syndicated to generate equity, though at less than half the rate.

- **Where it works best**: Areas with higher median rents.

- **What would be required for implementation:** Executive action by participating local governments.

- **Precedents**: None yet.

Tool 5: Increase the Number and Effectiveness of Local Inclusionary Housing Ordinances

- **Barriers addressed:** Limited availability of affordable housing subsidy; limited reach of inclusionary housing in the Denver region.

- **Benefits:** Inclusionary housing can be a powerful tool for involving the private sector in producing affordable housing near transit. Presently, just over one-half of FasTracks stations fall within jurisdictions with inclusionary housing policies: Denver, Boulder and Longmont. Proliferation of ordinances in the Denver region would go a long way toward creating more inclusive transit-oriented developments. Further, the City and County of Denver, where many FasTracks stations are located, can improve its Inclusionary Housing Ordinance (IHO) to create a broader range of housing choices at future TODs in the city. Three useful improvements for Denver in particular would be:

    1) Apply inclusionary zoning to rental housing, in addition to for-sale units;
    2) Require longer-term affordability than Denver's current requirement of 15 years; and
    3) Refine incentives offered to developers under the IHO.

- **How it works**: Inclusionary zoning ordinances require developers to make a percentage of housing units in new residential developments affordable to lower-income households. In return, developers typically receive cost offsets and/or other forms of compensation, such as density bonuses. Three important changes to Denver's ordinance are needed:

    1) Denver's ordinance needs to be modified to generate below-market-rate rental units, in order to reach the lowest-income households. Presently, in deference to the 2000 *Telluride* court decision, cities such as Denver only require set-asides of affordable homeownership housing. The *Telluride* decision found local government regulation of rent levels in a private sector development to be a violation of state statute prohibiting rent control.

        To facilitate production of rental housing in transit zones, Denver and other metro communities could join affordable housing advocates in seeking a remedy to the Telluride decision in the General Assembly. This would enable these institutions to rent inclusionary units to very-low-income households. Strategic use of "in-lieu" fees could be used to fund the purchase of inclusionary ownership units by local housing authorities.

Alternatively, Denver could adopt a model that has been used in cities such as Boulder, whereby developers of market rate rental housing are required to meet the city's inclusionary zoning requirement by (1) paying a cash-in-lieu fee; (2) providing an affordable housing ownership component on-site, or (3) selling a percentage of their units to the local housing authority or to a similar agency (defined as a non-profit organization with affordable housing as a primary mission), which then manages them as affordable rental units.

2) Presently, Denver's ordinance requires that inclusionary units stay affordable for just 15 years, after which owners may resell them at market prices. This greatly impairs the city's ability to grow its affordable housing stock, particularly at transit stations. At transit stations, lost affordable housing is unlikely ever to be replaced after the 15-year window closes. Given how difficult it is for affordable housing to gain a foothold at TODs, it would be a particular shame to lose the affordable housing that is created through inclusionary housing requirements there. Following Boulder's example, Denver should extend its expiration period to 99 years so that affordable housing built at TODs can benefit multiple generations over time.

3) City and development community representatives have identified several needed improvements in Denver's Inclusionary Housing Ordinance, particularly with respect to the incentive package that developers receive in compensation for complying with the ordinance. The density bonus in particular—which has been a major incentive in other cities—has been difficult to implement under the city's current zoning code. Before the IHO can be expanded, the city must ensure that the available incentive package is both functional and meaningful to developers.

- **Where it works best:** Inclusionary zoning works best in areas that are well served by transit and rich in opportunities, but where the housing market is strong enough that developers are catering primarily to higher-income households. Inclusionary zoning is also an important tool in built-out communities, where competition for limited land can make it difficult for affordable housing developers to gain a foothold and acquire sites for below-market-rate housing.

- **What would be required for implementation:** Action by city councils; agreements from local housing authorities; possible action by the General Assembly

- **Precedents**: ***Moderately Priced Dwelling Unit Program Montgomery County, Md.*** While some elements of Montgomery County's inclusionary zoning program should *not* be emulated—for

instance, its limited affordability term requirement—the county's approach to reaching the lowest income households is exemplary. Montgomery County's program grants the local public housing authority—the Housing Opportunities Commission (HOC) —first right of refusal for purchasing up to a third of a project's inclusionary units, with the understanding that they will be rented or sold to very-low-income households. HOC-approved nonprofits have second right of refusal on an additional 7 percent of inclusionary units. This has enabled the county's program to benefit households earning much less than 65 percent of AMI (the income target set by the program). Boulder, Colo,. and Cambridge, Mass., have similar policies.

Boulder, ***Colo.*** Boulder's inclusionary housing policy requires affordability for 99 years—essentially in perpetuity. This has helped Boulder move more quickly toward its goal of making 10 percent of its housing stock (4,500 units) permanently affordable. As of 2003, the city had attained 50 percent of its goal.[24]

Tool 6: Create Incentives for Station Area Planning and Zoning

- **Barriers addressed:** Absence of an overall guiding vision for land assembly and development; NIMBY concerns; costs and risks for developers seeking zoning changes in areas where transit-supportive zoning is not yet in place; potential for TOD to displace existing low-income renters.

- **Benefits:** Deliberate station area planning and zoning can increase certainty for developers, in addition to mapping out a comprehensive strategy for creating feasible development that takes full advantage of transit proximity. By broadcasting the city's intentions, and even permitting certain development so that it does not require further zoning approvals, station area planning and rezoning can decrease the time, cost and risk of TOD.

  Station area planning also can be a tool for developing a comprehensive, affordable housing strategy for a TOD district. By rolling this strategizing into physical planning, cities can develop solutions to minimize displacement before gentrification pressures heat up, thereby stabilizing existing affordable housing and coordinating resources to ensure new affordable housing gets built. Finally, station area planning also can help anticipate and address "NIMBY" concerns before they become intractable. All of this decreases the cost and increases the potential for affordable housing at TODs.

  Planning at the transit corridor level is an important corollary to station area planning. By looking comprehensively at the stations along a transit line, a city or cities can enhance ridership by creating

[24] Business and Professional People for the Public Interest, *Success in Affordable Housing: The Metro Denver Experience*, 2005.

a balance of origins and destinations with the land uses emphasized at each station. Planning at this level also can help channel commuter parking to the stations where it will be most useful, while freeing up space at other stations for such uses as housing.

According to the City and County of Denver's *Zoning Code Update Diagnostic Report*, the city's zoning code is widely deficient for TOD areas.[25] While three station areas now have transit mixed-use (TMU-30) zoning, the city's remaining stations mostly are zoned for single uses, permit insufficient density and require too much parking for a TOD district. Greater station area planning and the use of transit-supportive zoning, such as the TMU-30 District, are crucial first steps in creating mixed-income TODs.

- **How it works:** One strategy for encouraging cities in the Denver region to zone for transit-oriented development would be to tie specific zoning standards to Denver Regional Council of Governments (DRCOG) station area planning grants. DRCOG should have a set of criteria for what comes out of station area planning, to ensure resulting plans truly facilitate transit-oriented development and have effective implementation mechanisms**.**

  Another strategy is to help cities shape development in transit zones even if they are not yet ready or capable of doing expensive station area planning. Many cities have an incentive to wait on detailed station area planning until station construction is imminent, given that market conditions and other factors change over time. In the interim, an excellent tool for preventing station areas from being built out in ways that conflict with transit-oriented development is the *TOD Station Typology*. This incremental form of station area planning was developed by the City and County of Denver (see explanation below) and can help cities create a framework for future TODs that protects station areas until cities are ready to do more extensive planning.

- **Where it works best:** Cities with limited funding for station area planning, or long waits until stations are constructed.

- **What would be required for implementation:** Action by city councils and DRCOG.

- **Precedents:** ***TOD Station Typology, Denver.*** In 2006, the City and County of Denver began developing a flexible tool for station area planning that allows for effective policy guidance prior to development of a detailed area plan. The typology identifies basic "place types" that provide a general vision for each station area. This framework serves two important functions. First, it provides enough detail for each station area so that, if development proposals are submitted to the city prior to completion of a detailed station area plan, there is some basis for evaluating each proposal to determine

[25] City of Denver, *Implementing Blueprint Denver: Draft Zoning Code Update Diagnostic Report*, June 2006.

its appropriateness. Second, the place types provide the starting point for the station area planning process, allowing all participants a shared vision from which to begin developing specifics, including an appropriate implementation strategy.

Chapter 40R, State of Massachusetts. Massachusetts rewards municipalities that create transit village overlay zoning through state legislation known as Chapter 40R. Cities receive grants based on the degree to which they have set up supportive zoning for transit zones.

To be eligible for a grant, a city must:

- Submit comprehensive plans outlining the housing it plans to build in the districts;
- Zone for a minimum density of eight units/acre for single-family, 12 units/acre for duplexes and triplexes and 20 units/acre for multi-family buildings (all "as of right"); and
- Require that at least 20 percent of residential units in district projects with more than 12 units be affordable.

In return, cities receive:

- Between $10,000 (for 20 units or less) to $600,000 (for 501 or more units);
- Bonus payments of $3,000 for each unit of new housing that actually receives a building permit; and
- Eligibility for favorable treatment when state discretionary funding is disbursed for such things as water and sewer, traffic control and environmental cleanup.

If no construction begins in the district within three years of receipt of the incentive payment, the municipality must repay the state.[26]

Tool 7: Create a Regional TOD Infrastructure Fund with Affordable Housing Incentives

- **Barrier addressed:** High infrastructure costs at TODs.
- **Benefits:** A regional infrastructure fund could reward jurisdictions that have done station area planning, put appropriate zoning in place and set minimum affordable housing requirements for development in the station area.

[26] Center for Urban & Regional Policy, http://www.curp.neu.edu/sitearchive/thisweek.asp?id=2142

- **How it works:** A regional infrastructure fund—perhaps administered by DRCOG—could complement local financing mechanisms, while creating incentives for affordable housing as well as the type of density, design, parking standards and pedestrian scale needed to create feasible, and truly transit-oriented, development. Federal transportation monies from the CMAQ program are eligible for these purposes.

- **Where it works best**: A TOD Infrastructure Fund would have the biggest impact in non-blighted areas that presently are restricted from using tax-increment financing (TIF), as well as in cities that already have resources to do effective station area planning.

- **What would be required for implementation:** Allocation of federal CMAQ funds; possible voter approval for tax increase or bond issue to raise additional revenue.

- **Precedents:** ***Housing Incentive Program, Metropolitan Transportation Commission, San Francisco Bay Area.*** The Metropolitan Transportation Commission (MTC) operates a Housing Incentive Program (HIP) that makes "livability infrastructure" grants to jurisdictions based on the number of housing units that are built close to transit. To be eligible for HIP grants, housing projects must count at least 30 units/ acre. Grant amounts are tied to the density and the affordability of the project—from $1,000 per bedroom (for a 25 units/ acre project) up to $2,000 per bedroom (for projects with density of 60 units/acre). Affordable projects earn an additional $500 per bedroom. Funds for this program are directed through the CMAQ program.

  TOD Infrastructure & Housing Support Program, State of Massachusetts. This bond program provides financial assistance for pedestrian improvements, bicycle facilities, housing projects and parking facilities within one-quarter mile of transit stations. Priority is given to projects that are part of, or adjacent to, an existing or proposed TOD. At least 25 percent of the units in housing projects must be affordable to households earning up to 80 percent of AMI.

Tool 8: Leverage Tax Increment Financing (TIF) for Affordable Housing

- **Barriers Addressed:** High infrastructure costs at TODs; limited affordable housing subsidies.

- **Benefits:** Tax Increment Financing (TIF) is a tool for using an area's projected tax revenue growth to finance local infrastructure improvements. The administering agency bonds against these projected funds to finance such public improvements as new sewers, streets, sidewalks, site clearance, removal of hazardous conditions and site assembly. By using TIF to help upgrade local infrastructure and prepare sites for development, an Urban Renewal Authority can lower the cost of private development near transit, making the provision of

affordable housing more feasible. Agencies such as the Denver Urban Renewal Authority (DURA) should use this assistance as a carrot—not only to attract private investment to "blighted" areas, but also to encourage developers to include affordable housing, so that the full range of the city's residents can benefit from public TIF investments.

- **How it works:** In Colorado, the power to use TIF is restricted to Urban Renewal Areas, which can be created only through extensive public process in places where a preponderance of "blight" exists. State law spells out 11 types of blight; at least four must be identified to create an Urban Renewal Area. These include factors impeding private investment such as unsanitary or unsafe conditions, deteriorated or deteriorating structures, conditions that endanger life or property, and environmental contamination. Where TIF is authorized, a city's urban renewal authority retains the yearly growth in an area's sales and property tax (the "tax increment") from a baseline year forward, and is authorized to reinvest the revenue strictly in the area from which it was collected.

  Given the important public purpose served by including affordable housing in transit areas, DURA and other urban renewal authorities should be required to develop a plan for leveraging affordable housing in each station area where housing is envisioned and TIF is proposed. If TIF is used— meaning public tax revenue is set aside to benefit only the station district—new housing built in that district should be accessible to the broadest possible range of incomes without compromising the project's overall feasibility. DURA and other urban renewal authorities could facilitate development of affordable housing by many means, including dedicating a portion of the tax increment to cover infrastructure costs for affordable housing in the district, earmarking more than the minimum tax increment for a private development's infrastructure costs in exchange for the inclusion of affordable housing, or simply requiring more affordable housing than necessitated by the city's inclusionary housing policy as a condition for TIF subsidy.

- **Where it works best**: Since residential properties generate very little property tax (as a result of state constitutional restrictions), TIF makes sense primarily in transit areas that expect significant commercial development. Otherwise, too little tax increment may be generated to finance infrastructure improvements. Further, in Colorado, TIF can be used only in areas with significant blight. Some states, such as New Mexico and Texas, free local agencies to use TIF outside blighted areas—an interesting policy that, if duplicated in Colorado, could make infrastructure financing at non-blighted transit stations much easier.

- **What would be required for implementation:** Clear articulation of expectation by mayors and city councils and agreement with urban renewal authorities (short-term); potential statutory changes (long-term).

- **Precedents:** ***Denver Transit Station Areas.*** TIF already is being used to fund infrastructure and site readiness improvements near several transit stations, including the planned Broadway/I-25, Belleview and Union Stations. Affordable housing will be provided by private developers at the Broadway/I-25 site, though it was negotiated by public agencies other than DURA.

  Homestead Preservation Districts, Austin, Texas. The State of Texas authorizes municipalities to form TIF zones to finance public improvements and stimulate private investment in declining areas or on raw land in suburban fringes. This power is divorced from traditional redevelopment powers such as eminent domain; TIF boards can choose to partner with Redevelopment Authorities, but it is not a requirement. Recently, the state passed a Homestead Preservation Act, which authorizes the City of Austin to create "Homestead Preservation Reinvestment Zones" where all of the tax increment collected is dedicated to the preservation of affordable housing. Working in tandem, a traditional TIF zone can be used for a ring of land closest to a transit station to create revenue for infrastructure improvements, while the Homestead Preservation District would be used to prevent displacement in adjacent neighborhoods. In addition to authorizing Homestead Preservation Reinvestment Zones, the Act authorized creation of a Homestead Land Trust—to acquire and hold land for the purpose of developing and preserving long-term affordable housing in the district—and a Homestead Land Bank—to expedite the process of clearing title to vacant and abandoned lots with delinquent taxes and putting affordable homes on these lots.[27]

Tool 9: Use Metropolitan Districts in Transit Zones

- **Barriers addressed:** High infrastructure costs of TODs; limited affordable housing subsidy.

- **Benefits:** Unlike an Urban Renewal Area, a Metropolitan District can create funding for transit zone infrastructure regardless of whether the area has a preponderance of blight. It operates like an assessment district, with the ability to assess a special property tax on parcels within its boundaries and direct the revenue to improvements benefiting the district. This financing for infrastructure improvements can lower the overall cost of private housing development – and, in turn, give public agencies more leverage to require some degree of affordability in housing built in the station area.

- **How it works:** Metropolitan Districts can increase the local property tax rate, but not the sales tax rate. Revenue must be used for public purposes, and can be used for a full range of infrastructure

[27] Interview with Gerardo Castillo, legislative policy aide, Office of Texas State Rep. Eddie Rodriguez, July 20, 2006.

improvements. Districts require passage by a majority of property owners within the affected geography.

- **Where it works best:** Metropolitan Districts work best in areas expecting mixed-use development that can generate considerable commercial property tax revenue. This is because the district is restricted to a property tax assessment, and limited to a small percentage of assessed value for residential properties, due to state constitutional requirements. Metropolitan Districts also must be fairly large to cover infrastructure costs on their own.

- **What would be required for implementation:** Approval of city council (for new metro districts).

- **Precedents:** A Metropolitan District is being used around the I-25/Broadway station (Gates Rubber site) in conjunction with tax increment financing. Three Metropolitan Districts have been created for properties surrounding the Belleview Light Rail Station, and one at Union Station. Both of these work independently of TIF. In total, 11 Metropolitan Districts are currently operating in Denver.[28]

Tool 10: Reduce Parking Requirements in Transit Areas, Especially for Affordable Housing

- **Barriers addressed:** NIMBY concerns; excessive parking requirements.

- **Benefits:** The high cost of land makes inflated parking requirements a particular impediment to affordable housing near transit stations. Denver and other cities in the region can lower the cost of housing near transit by adopting parking standards that reflect the greater likelihood of transit use in well-designed, transit-oriented developments. Parking policies also should reflect that car ownership rates vary significantly among unit types.

- **How it works:** Parking policies that help make affordable housing feasible at transit stations include:

  (1) *Lower parking minimums for certain unit types, including affordable units.* Effective parking policies permit less than one space per unit for apartments or condos that historically have shown less than average parking demand (e.g., studio units, senior housing, affordable housing).

  (2) *Lower minimums for developments that "unbundle" parking.* When parking spaces are sold or rented separately from housing units there is evidence that demand drops, as spaces are vacated by residents who don't need them or who

[28] Interview with Karen Aviles, Assistant City Attorney, City of Denver, July 17, 2006.

are unwilling to make the extra payment. Granting lower parking minimums rewards developers for unbundling, and helps households that don't require parking save on the final price of their unit.

(3) *Lower parking minimums, and "use by right" permitting, for shared parking in mixed-use developments*. When certain land uses are mixed in a single development (e.g., retail and restaurants), total peak parking demand is lower than if the uses were in separate developments. This is because each use has different periods of peak demand, allowing one to take advantage of slack parking supply from the other. Cities can help developers take advantage of these efficiencies and lower overall development costs by enabling them to construct shared parking facilities without having to apply for a zoning variance or conditional use permit.

(4) *Parking maximums for transit areas*. Even when zoning codes allow lower parking ratios, pressure from residents in surrounding neighborhoods can sometimes lead developers to provide higher levels than are necessary. Maximum parking standards help prevent the oversupply of parking and have been used by many cities, including San Antonio, Seattle, Portland and San Francisco. In the Denver region, maximum ratios could be used in transit areas to insulate developers from pressures to provide more parking than is needed to serve residents and office workers with greater propensity to use transit.

- **Where it works best:** Transit-oriented development that includes affordable housing, studios and senior housing. Also works well at mixed-use development near transit.

- **What would be required for implementation:** City council approval.

- **Precedents: *Main Street Zoning Overlay, Denver*.** Denver's MS-3 zoning overlay was designed to cover high intensity sections of city main streets and areas within 600 feet of enhanced transit corridors. Parking requirements are as follows:

Market rate housing	1 space/unit
Affordable housing	0.8 spaces/unit
Senior housing	0.25 spaces/unit
Housing priced for households < 40% AMI	0.25 spaces/unit
Units < 550 square feet	0.25 spaces/unit
Single-room occupancy housing	0.25 spaces/unit
Special needs housing	0.25 spaces/unit

Smaller lots have even lower requirements.

NEXT STEPS

By approving FasTracks, metro area residents voted to make an unprecedented investment in the future of the region. For this investment to be fully realized, FasTracks must result in more than just improved transportation options. Ultimately, success will be measured by the creation of vibrant, livable neighborhoods near transit, enhanced ability of workers to get to jobs and the long-term impact on the economic growth of the region.

Mixed-income, transit-oriented development will be crucial to realizing the full potential of the Denver region's FasTracks investment. By identifying additional approaches to planning and funding mixed-income housing at TOD sites, this report aims to jump-start the conversation and create a sense of possibility among public officials and private developers.

What are the next steps? As this report makes clear, mixed-income TODs will not happen by themselves. The creation and preservation of diverse housing options in transit corridors will require proactive planning and policy development—and soon, because the more time that elapses the more difficult it will be to create and preserve mixed-income neighborhoods.

Because of the concentration of transit infrastructure in Denver, the City and County of Denver is uniquely positioned to play a leadership role in the development of mixed-income TODs. Doing so will require the involvement and support of a number of key players:

The *Mayor and City Council* must establish the creation of mixed-income development near transit as a priority for the city, set clear goals for housing development and preservation, and challenge the city administration to develop strategies and indicators to evaluate progress towards these goals.

The *Department of Community Planning and Development* (DCPD) is spearheading the planning and preparation for the expansion of the transit system in Denver. DCPD should be tasked with incorporating affordable housing goals into transit planning, translating city-wide goals into corridor and station-specific targets and creating appropriate land use strategies and regulations—and, once projects begin to enter the pipeline, monitoring progress toward housing goals. DCPD should prioritize community planning efforts in low-income neighborhoods where there is displacement potential, so the city and its neighborhoods can begin crafting a vision for redevelopment and creating a strategy to address the possibility of displacement.

The *Department of Economic Development* (DED) manages a number of important housing, community and economic development resources. DED should work closely with DCPD to set housing goals, and then

determine how to focus its resources in transit corridors to support the development of mixed-income housing and to mitigate against displacement of low-income residents in transit corridors.

The *Denver Urban Renewal Authority* (DURA) has extensive experience with large redevelopment efforts and manages an important tool in the form of tax-increment financing. DURA should be asked to develop specific guidelines for leveraging TIF investments in transit corridors to support city housing goals.

Of course, the City and County of Denver cannot achieve the goal of mixed-income housing alone. RTD, DRCOG, CHFA and the development community all have important roles to play. It will take a concerted effort by all these partners—and others—to ensure that we realize the full potential of the region's historic investment in transit.

As noted in the introduction to this report, ***time is of the essence.*** Current and future light-rail stations have already attracted developers that, understandably, are building for the upper end of the market. Policies, programs and financing tools that support the creation of mixed-income communities surrounding transit stations are urgently needed to ensure that the benefit of the formidable FasTracks investment is leveraged equitably and efficiently. Metro Denver's leaders must seize the opportunity to ensure that the giant step forward represented by FasTracks benefits all our citizens and enables a thriving community for generations to come.

APPENDIX 1

Case Study Analyses of Four Transit Station Areas

Four station area case studies inform the preceding discussion of barriers and tools for mixed-income TOD. For each station area, we examined demographic and housing information for the area within one-half mile of the proposed station in order to project the potential impact of transit-oriented development. In addition, we used a specific parcel from each case study area to model the type of mixed-income housing that could be built. We incorporated details about the parcel—price, size, zoning etc.—into a financial pro forma to evaluate the feasibility of mixed-income housing development both under current conditions, and as a result of the implementation of the tools discussed in the previous section.

Table A-1 provides a demographic snapshot of all the case study areas.

Table A-1: Characteristics of Four TOD Case Study Areas in Metro Denver

	40th and 40th	Sheridan	Inca	Belleview	Denver
Population	2,773	5,601	3,710	1,221	554,636
% under 18	33%	29%	18%	7%	22%
% over 65	9%	21%	7%	10%	11%
Race					
White	47%	62%	95%	89%	65%
Black	7%	2%	0%	2%	11%
Other	46%	36%	5%	9%	24%
Ethnicity					
Hispanic	82%	53%	85%	11%	32%
Not Hispanic	18%	47%	15%	89%	68%
Median household income	$28,393	$31,799	$21,775	$62,060	$39,500
Housing Units					
% rental	52%	65%	61%	69%	50%
% owner occupied	42%	30%	36%	2%	45%
% vacant	6%	5%	3%	28%	5%

Source: CBRE, based on Claritas data for 2000.

The case studies are described below. Following the case studies, Table A-2 summarizes the particular barriers that confront mixed-income TOD at each case study station and outlines place-specific tools for overcoming these barriers.

40th Street & 40th Avenue

Of the four case study sites, the station area surrounding 40th Street and 40th Avenue represents the greatest potential for dramatic change. According to the City of Denver's TOD typology, 40th and 40th is envisioned as a "Major Urban Center," with high-density office, retail and entertainment and residential development encouraged.

Currently, the area comprises an assortment of warehousing, fabrication and distribution uses and an extensive rail yard owned by the Union Pacific Railroad. Lots are of varying shapes and sizes, many of which are partially occupied, potentially indicating land banking activity in the area. The area is constrained by poor access and an undefined street network. As a result, the vision for change in the station area is ambitious and likely to require significant infrastructure improvements.

Unlike the urban neighborhood stations at Sheridan and Inca Street, the 40th and 40th station area possesses virtually no existing residential fabric. Lacking immediate neighbors, it is expected that projects in this area will be higher-density and more bold in form and character as they fold into the industrial character of the area.

The parcel selected for the financial analysis is bounded by 40th, Franklin Street and 40th Avenue. The proposed development would be a multifamily structure of more than four stories. The site is located within a Qualified Census Tract (QCT)—in which 50 percent or more of the household earn less than 60 percent of AMI— so a LIHTC-financed project would be entitled to a 30 percent increase in the tax credit

allocation. For this reason, the project could work as a LIHTC-financed rental development, although the cap on tax credit allocation would pose a significant barrier. A mixed-income condominium development also could be feasible if prices for market-rate units in the area continue to rise or additional subsidies for the affordable units were available.

West 12th Avenue & Sheridan Boulevard

The Sheridan Station is located on the border of Denver and Lakewood. By the City of Denver's TOD typology, Sheridan is an "Urban Neighborhood" station, primarily residential in character with some neighborhood retail. The station itself will be a neighborhood walk-up, with limited, if any, parking.

Sheridan is the most densely populated of the case study sites. Most of the residents living within one-half mile of the proposed station are Hispanic, with many low-income households. The housing stock consists of single-family and small multifamily properties, with a high percentage (65 percent) of rental properties.

The area around Sheridan Station may have difficulty attracting housing for moderate- and higher-income households in the short term. In the long term, however, the introduction of transit, reinvestment along West Colfax and the area's close proximity to Downtown Denver create the opportunity for substantial redevelopment. As the value of transit is realized, single-family homes in the area are expected to revert to ownership, displacing many low-income renters. As a result, this

station area presents an opportunity for land acquisition to preserve opportunities for affordable rental and ownership housing.

The site selected for financial modeling would assemble the parcels between Lakewood Gulch (the light rail alignment) and West 10th Avenue to the west of Sheridan, excluding the corner lot at Sheridan Boulevard and West 10th Avenue. The contiguous parcels, topography and R-4 zoning at this site present the physical and regulatory opportunity to achieve a project of significant scale at a very close range to the transit station.

As with 40th and 40th and Inca Stations, the Sheridan Station falls within a QCT, which makes it a viable location for a LIHTC project. The current cap on tax credit allocations would limit the potential size of the project, unless it could be built in phases. A mixed-income condominium project would require additional subsidies for the affordable units because the prices on the market rate units, at least initially, would not be high enough to provide adequate cross-subsidization.

Inca Street & West 38th Avenue

The exact location of this station—and the alignment of the Gold Line that will serve it—is still under discussion, but for the purposes of this analysis was assumed to be at Inca Street and West 38th Avenue. Like Sheridan, the Inca and 38th Station is classified as an "Urban Neighborhood" station.

Currently, the area west of the proposed station is residential in character, with a mix of early to mid-century "half-Victorians" interspersed with some lower-volume industrial uses closer to the rail corridor that separates this area from the downtown and retail and commercial uses along 38th Avenue. Despite its proximity to downtown, property values have remained lower than have those in surrounding areas, with recent home sales in the low- to mid-$200,000 range.

The site used for the financial modeling was a modest-sized parcel located north of 38th between Inca and Jason Streets. The low-density residential nature of the neighborhood to the west of the site suggests that a smaller-scale development would be most appropriate. A modest-size LIHTC-financed project would be feasible, as the site is located within a QCT. A mixed-income for-sale project would be more difficult, given the relatively modest prices of existing market rate units in the area.

Belleview

Like 40th and 40th, Belleview is classified as a "Major Urban Center" in the city's typology, but it offers opportunities to develop a mixed-income community in a more suburban setting. The site would be located within a larger 46-acre mixed-use center slated for 2.1 million square feet of offices, 161,700 square feet of retail space and 1,874 dwelling units. It is hoped that this station area will serve as a local urban core for the surrounding Denver Technological Center. This area is characterized by larger development opportunities amidst auto-oriented transportation and land use patterns.

Financial modeling suggests that a higher-density, mixed-income for-sale development could work at Belleview. An affordable rental project is more difficult under current conditions because the site is not located within a QCT and, therefore, not eligible for additional LIHTC equity through the basis boost. Moreover, market rents currently are relatively low (although rising), so they do not provide much cross-subsidization for the affordable units. Affordable rental development could become more feasible as market rental rates rise, or if TOD properties became eligible for an exception to the basis limit, as suggested in the "Tools" section.

Table A-2: Barriers, Tools and Opportunities in Each Case Study Area

Station/Corridor/Type	Opportunities	Barriers to Mixed-Income TOD	Relevant Tools
40th St. and 40th Ave. *Corridor:* East *Station Type:* Major Urban Center *Transit Type*: Commuter Rail	• Existing industrial context is less sensitive to neighborhood change • Larger parcels • Lack of existing auto-oriented residential pattern • Nearby loft housing • Potential for joint development with RTD	• Infrastructure costs, in particular access/circulation improvements • Potential need for environmental remediation • Parking costs • Limits on tax credits per project • Land speculation already occurring • No existing comparable products, thus higher risk • Industrial zoning	• Metropolitan Districts for infrastructure financing • Leveraging tax increment financing for affordable housing • Regional TOD Infrastructure Fund, with affordable housing incentives • TOD Affordable Housing Acquisition Fund • Modifications to Colorado's Low Income Housing Tax Credit program • Reduced parking requirements in transit areas
Sheridan *Corridor:* West *Station Type:* Urban Neighborhood *Transit Type*: Light Rail	• Under-utilized properties • Transit-dependent population • Potential for joint development with RTD • Opportunity to stabilize area with reinvestment	• Parcelized land ownership requires land assembly • Vision for TOD district has not been prepared • Providing parking will be expensive • Redevelopment could create displacement (due to high % of renters in neighborhood) • Market perception as risky area • Limits on tax credits per project • Neighborhood sensitivity to change • Zoning isn't suitable for TOD (R-2)	• RTD joint development for mixed-income housing • Proactive station area planning and zoning • Reduced parking requirements in transit areas • Modifications to Colorado's Low Income Housing Tax Credit program • TOD Affordable Housing Acquisition Fund • Broader range of incomes served by the Metro Mayors Caucus TOD Fund • Proactive station area planning and zoning.

Station/Corridor/Type	Opportunities	Barriers to Mixed-Income TOD	Relevant Tools
Belleview *Corridor:* Southeast *Station Type:* Major Urban Center *Transit Type:* Light Rail	• Mixed-Use (both residential and commercial) market potential • Newer suburban context • T-MU-30 zoning in place	• Inclusionary housing ordinance requires some affordable homeownership, but developer would prefer to do rental. • Limits on tax credits per project (don't qualify here for QCT 30% basis boost)	• TOD Affordable Housing Acquisition Fund • Improvements to Denver's Inclusionary Housing Ordinance to promote rental housing • Regional TOD Infrastructure Fund, with affordable housing incentives • Modifications to Colorado's Low Income Housing Tax Credit program • Metropolitan Districts for infrastructure financing • Regional TOD Infrastructure Fund
38th and Inca St. *Corridor:* Gold Line *Station Type:* Urban Neighborhood *Transit Type:* Commuter Rail	• Low land costs • Small-scale, incremental investment • Opportunity to stabilize area with reinvestment	• Community sensitivity to density • Small project size means fewer economies of scale • Zoning not yet supportive of transit	• TOD Affordable Housing Acquisition Fund • Proactive station area planning and zoning • Broader range of incomes served by the Metro Mayors Caucus TOD Fund • Reduced parking requirements in transit areas • Improvements to Denver's Inclusionary Housing Ordinance to promote rental housing

APPENDIX 2

The Combined Burden of Housing and Transportation Costs

Affordability is driven by two components: housing cost burden and transportation cost burden. Although housing is considered affordable if it accounts for roughly 30 percent or less of a household's monthly budget, location costs—more specifically, transportation costs—are also an essential component of affordability in a region. Nationally, transportation is the second-largest household expenditure after housing, ranging from less than 10 percent of the average household's expenditures in transit-rich areas to nearly 25 percent in many other areas.

The Center for Transit-Oriented Development and the Center for Neighborhood Technology have developed the "Housing and Transportation (H+T) Affordability Index" (Figure A-1) to measure the trade-offs that households make between housing and transportation costs. This analysis divides area households into four quadrants:

Figure A-1: Housing + Transportation (H+T) Affordability Index

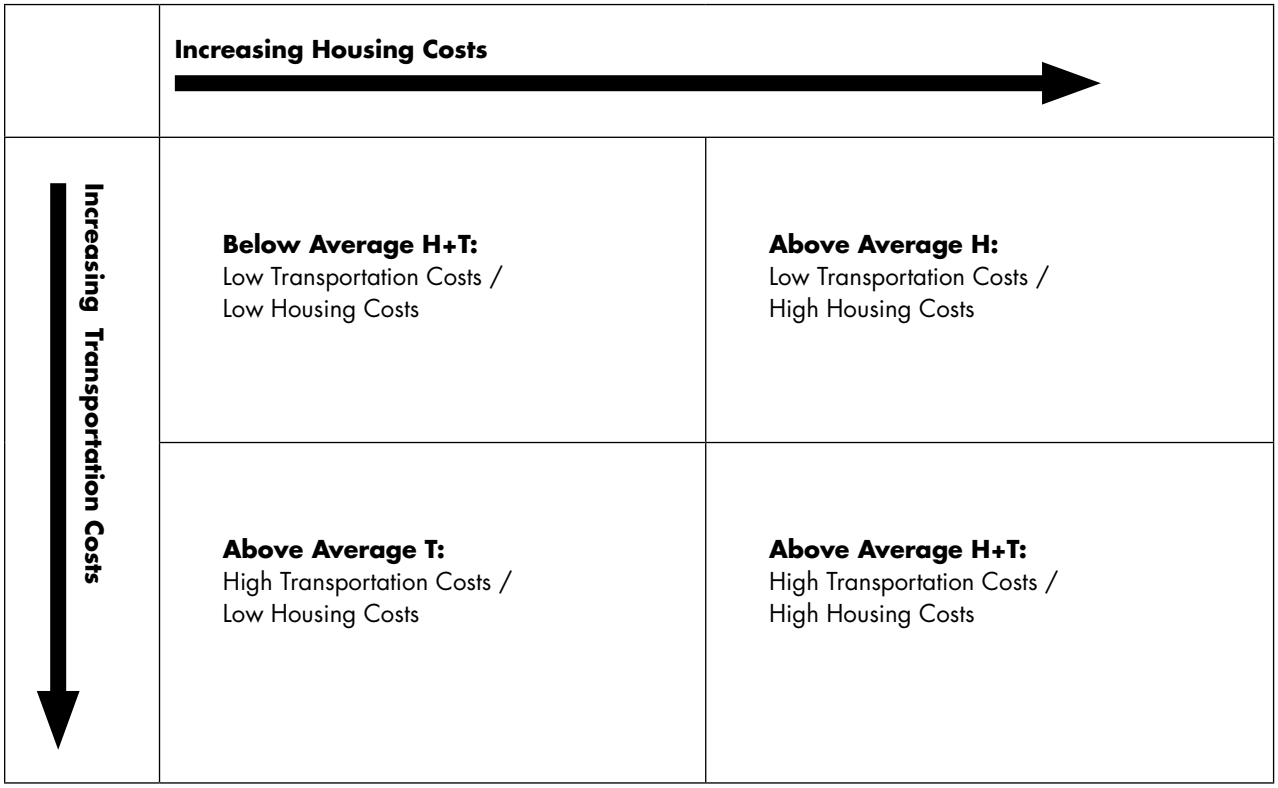
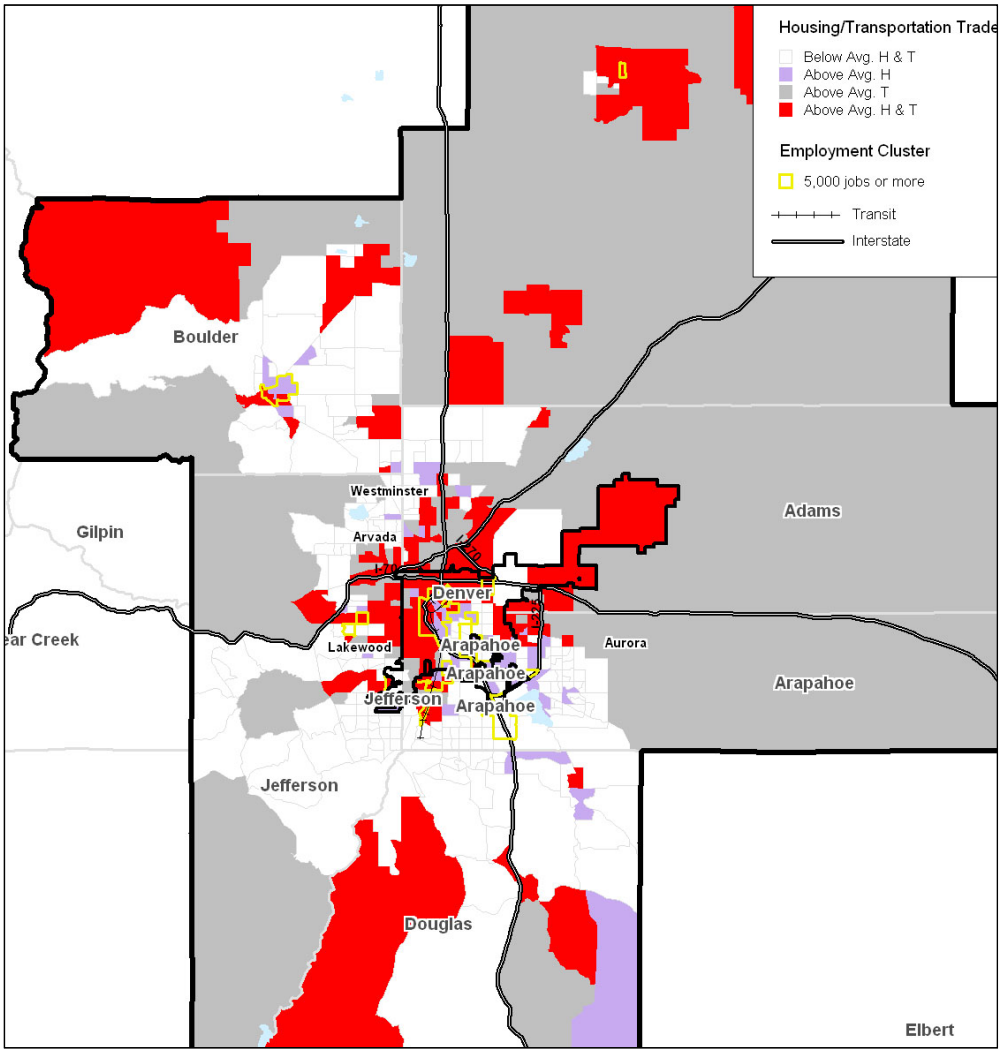


Figure A-2 shows the distribution of these quadrants in the Denver region. Households with low housing and transportation costs are clustered close to the city center. This agglomeration is partially broken up by households that benefit from lower transportation costs, but pay more for housing. Many of these households appear to be clustered near newer job centers. This finding is echoed nationally in emerging research from the Center for Neighborhood Technology that identifies a pattern of overcrowding near job centers where transportation costs are lower and housing production is not keeping pace with demand. The result is increasing housing costs in areas in which transportation costs are reduced. A similar phenomenon is likely to occur around FasTracks stations, which effectively bring job centers closer to households in the area. Provisions for mixed-income housing near these stations is needed to ensure that Denver's low-income households will continue to have access to housing that allows them to live affordably in areas with lower housing and transportation costs.

Figure A-2: Household Housing + Transportation Costs as a Percentage of Income – Denver Region



Source: Center for Neighborhood Technology, 2006.

APPENDIX 3

Interviewees

Our research benefited significantly from 22 interviews with for-profit and nonprofit developers, policy advocates, city officials, housing lenders, economists and regional housing organizations. We wish to thank:

Joyce Alms-Ransford, *Rocky Mountain Housing Development Corp.*
George Antoine, *Regional Market Analysis Division, HUD*
Cindy Brown, *Boulder Housing Partners*
James Coil, *Coil Research and Consulting, LLC*
Catherine Cox-Blair, *Community Planning and Development, City of Denver*
Britta Fisher, *Colorado Housing Investment Fund Coalition*
Jerry Glick, *Workforce Housing*
Steve Gordon, *Community Planning and Development, City of Denver*
Mary Hupp, *Housing Justice!*
Lara Jakubowski, *Mile High Housing Fund*
Bill Lunsford, *Lakewood Housing Authority*
Denis Malone, *Apartment Association of Metro Denver*
Catherine Marinelli, *Metro Mayors Caucus*
Gete Mekonnen, *Northeast Denver Housing Center*
Michelle Mitchell, *Colorado Housing Assistance Corporation*
Jacky Morales-Ferrand, *Division of Housing and Neighborhood Development, City of Denver*
Kristi Pollard, *Southeast Business Partnership*
Jennie Rodgers, *Community Strategies Institute*
Alana Smart, *Housing Colorado!*
Bill Sirois, *Denver Regional Transportation District*
Gordon Von Stroh, *Daniels College of Business, University of Denver*
David Zucker, *Zocalo Development*

APPENDIX 4

Acronyms Used In This Report

AMI Area Median Income. The mid-point (median) of the income distribution for families or households in a specific geographic region, as determined by a study or census. In this report, AMI refers to median *household* income levels determined annually by the U.S. Dept. of Housing and Urban Development, by location and household size.

CDBG Community Development Block Grant, a federal funding program administered by states and local governments and used for activities that benefit low-income people and communities.

CMAQ Congestion Mitigation and Air Quality. A federal program used to finance certain transit-oriented development projects.

DRCOG Denver Regional Council of Governments. The regional planning agency for the eight-county Denver metropolitan area

HOME HOME Investment Partnership Program, commonly known as the HOME program. Administered by the U.S. Dept. of Housing and Urban Development, it uses a formula to distribute grant funds to eligible state and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary and affordable housing. Usually, HOME grants require matching funds from non-federal sources.

HUD U.S. Department of Housing and Urban Development.

IHO Inclusionary Housing Ordinance. In this document, refers specifically to the City of Denver ordinance requiring that 10 percent of for-sale developments numbering more than 30 units must be "affordable" according to specific income guidelines.

LIHTC Low-Income Housing Tax Credit. A federally-financed, state-administered program for financing affordable housing. See Tool 3 beginning on page 29 of this report for a more detailed explanation of the program.

MSA Metropolitan Statistical Area. Describes a metropolitan area that may include one or more municipalities and counties.

PAB Private Activity Bond. A type of tax-exempt financing that may be used to finance affordable housing.

QAP Qualified Allocation Plan. The guidelines used by the Colorado Housing & Finance Authority to evaluate projects seeking low-income housing tax credits.

QCT Qualified Census Tract. QCTs are defined by the U.S. Dept. of Housing and Urban Development as tracts in which 50 percent or more of households earn less than 60 percent of AMI.

RTD Regional Transportation District. The public transportation provider for the eight-county metropolitan Denver area.

TIF Tax-Increment Financing. A tool for using an area's projected tax revenue growth (usually sales tax) to finance local infrastructure improvements and lower the cost of private development.

TOD Transit-Oriented Development. A mix of uses at various densities within a half-mile radius, or walking distance, of a transit stop.

TMU-30 Transit-Mixed Use zoning. A provision of Denver's zoning code that facilitates mixed-use development at or near transit stops.

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