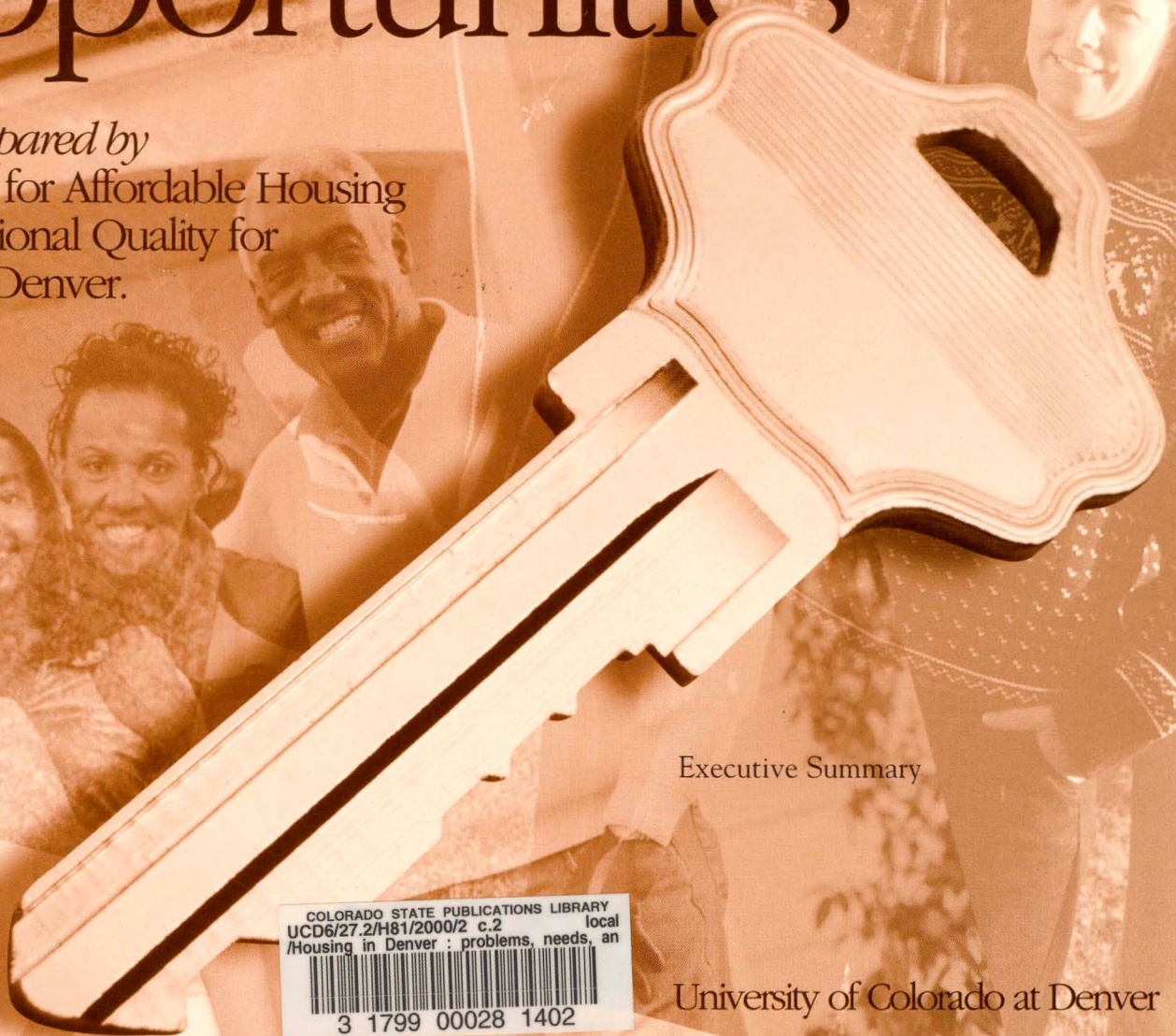


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Housing in Denver: Problems, Needs and Opportunities

A study prepared by
The Center for Affordable Housing
and Educational Quality for
the City of Denver.



Executive Summary

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University of Colorado at Denver

Executive Summary

Housing in Denver: Problems, Needs and Opportunities

A Study Prepared by
The Center for Affordable Housing and Educational Quality

University of Colorado at Denver

THE CENTER FOR

Affordable Housing & Educational Quality

December 14, 1999

Myrna Hip
Director, Community Development Agency
Denver City Planning Office
216 16th St., Suite 1400
Denver, CO 80202

Dear Ms. Hip:

I am pleased to send you this Executive Summary Report titled, "Housing in Denver: Problems, Needs and Opportunities". The document briefly summarizes the more extensive analysis and report by the same name recently transmitted to the city.

The Executive Summary, like the full report, provides the city and its residents with a overall understanding of the impact of market trends on housing affordability. It also grants priority to providing available information on and analysis of the impact of neighborhood development patterns on housing opportunities.

The Executive Summary and the report itself, recommend that the city immediate begin a "public" dialogue on several broad strategic questions concerning affordable housing policies. It also proposes that the city consider several immediate program options to expand housing choices in the city, particularly for low- and moderate-income households.

The Executive Summary and the report reflect the contributions of many individuals and groups. They include: Dr. Franklin James of the CU Policy Collaborative and GSPA, and Dr. Peggy Cuciti research director of the Centers. Their respective analyses were exceptional. They also include: Mike Rinner of the Genesis Group, who developed the affordable housing index under the guidance of the Center, and the staff of CACI in California, who provided the income estimates for the analysis and index. Andrew Romero of the Center for Affordable Housing and Educational Quality provided helpful data support; and Carol Jacobson Quintero and Christine Bader worked on computer programming. The many draft manuscripts were typed and formatted by Jana Smilanich. Editing was done by Tom McCoy and David Lampe. David Lampe also provided formatting assistance. Steve Gordon of the City Planning Department provided comments on the drafts and permitted us access to valuable and necessary data. Jim Coil of the U.S. Department of Housing and Urban Development provided the Center with much useful information. Importantly, Cece Ortiz of the Annie E. Casey Foundation and Mary Gittings and Terry Bailey of the Piton Foundation sharpened our sensitivities concerning neighborhood changes now occurring in Denver.

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David Herlinger and his colleagues at CHFA and Marcie LaPorte at HUD helped make us more aware of the intricacies of the project-based Section 8 program and the possible impact of anticipated contract terminations.

Dr. Robert Burchell of Rutgers University and Dr. Anthony Downs of The Brookings Institution, two of this nation's best housing analysts, reviewed the report in draft form. They provided supportive helpful comments.

While the Executive Summary, like the report, reflects a collaborative effort, as director and overall editor of the effort, I bear responsibility for possible errors of omission and commission.

On behalf of my colleagues, I thank you for the opportunity to work with you and your staff and with members of city's informal working committee. A special thanks to Council Chair, Happy Haynes and Councilperson Susan Barnes-Gelt for their helpful insights on the various draft reports. Irrespective of data constraints, the report we have presents a compelling case concerning Denver's housing problems and, indeed, opportunities. The views expressed in the report are those of the Center for Affordable Housing and Educational Quality.

The Executive Summary and full report should be viewed as the beginning not the end of the city's efforts to understand current housing issues and develop fair and effective policies and programs.

Sincerely,



Marshall Kaplan
President





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Last spring, the City of Denver's Community Development Agency (CDA) asked the University's Institute for Policy and its Center for Affordable Housing and Educational Quality to study the need for affordable housing within the City and County of Denver. The request was based in part on assumptions fed by frequent media reports that the average cost of housing in the city had increased significantly, thus limiting housing opportunities for both renters and buyers desiring to live in Denver. The request also was based on periodic reports completed by the State of Colorado, as well as private consulting firms suggesting increased housing affordability problems in Denver and the Metropolitan Area. Clearly, the city's leaders were worried about the relationship between escalating housing prices and the ability, particularly of low- and moderate-income residents, to remain in or secure affordable, decent housing in Denver. Just as clearly, they were concerned that possible shortages of affordable housing would limit the city's ability to attract new jobs and an expanded tax base.

This executive summary briefly describes the contents and conclusions of a much larger study submitted to the city and available on request from the CDA and the University of Colorado. Both the executive summary and the study itself, hopefully, will be used to foster a city-wide dialogue concerning the city's housing needs, as well as city housing policies and programs. To the extent data permit, both documents provide a snapshot of the city of Denver's housing problems and its housing opportunities. Because of data and budget limitations, both should be viewed as the beginning, not the end, of the city's efforts to secure a better understanding of how its citizens are housed and develop effective and equitable public policies.¹

¹The study makes use of and extrapolates from the "best," most up-to-date data available from the city, from the federal government, from local and regional governments, and from the private sector. Taken together, the available data reflects problems. For example, its age at times requires extrapolation. It is relatively weak on indicators of neighborhood housing change in relationship to specifics concerning neighborhood household income. It does not link general household characteristics to supply, cost, sales and rental information. Data difficulties, however, should not immobilize the city from moving forward based on the analysis provided in the report. The Center's study provides a start. Data and analysis in it facilitate reasonable judgements concerning need. While better data will permit refinement of initial conclusions, the basic analysis and findings presented in the study, likely, will not change. A framework now exists for the city to consider key policy questions and, in some instances, policy options.



THE DENVER METROPOLITAN AREA: CYCLE-UP, CYCLE-DOWN, CYCLE-UP AGAIN

Denver's housing market and its housing problems are in part shaped by its being the core city of a rapidly growing, much larger, metropolitan area. For example, if a surplus of housing exists in the metropolitan area or, more simply put, if there are lots of vacancy signs on lawns or in windows in suburban cities and counties, it is likely that rents and sales prices of units in Denver, on average, will be relatively soft. Similarly, if there are signs of a tight housing market in the metropolitan area—few vacancies, rapidly escalating housing prices—it is likely that, on average, Denver renters will pay more for rent and that households, particularly low- and moderate-income households² wishing to move to Denver, will find fewer affordable housing opportunities. Succinctly, while there are differences between central-city housing markets and suburban markets, what happens in the metropolitan area with respect to housing, vitally, affects what happens in Denver with respect to housing. Jurisdictional boundary lines are often not the key factor affecting local housing conditions, housing costs or housing choices.

What has happened and is now happening in the metropolitan area? In a nutshell, the area has been on a housing roller coaster for the past twenty years. The late 1970s and early 1980s were periods of vigorous population growth and housing construction. Both periods also witnessed significant increases in housing values and prices.

The economy in the metropolitan area stalled badly in the mid-1980s. Energy and other extractive industries cut back and the agricultural sector suffered from relatively low prices. The housing market did not escape the economic doldrums. Building activity plummeted to under 5,000 units

in 1989. Only a handful of multi-family units were built by developers.

An economic turnaround was in progress by the early 1990s. It was driven by a significant increase in jobs. Between 1993 and 1998, 30,000 to 40,000 new jobs were created annually in the metropolitan area. New jobs mean new purchasing power. Both generated a tremendous increase in housing demand and housing construction (Figure 1).

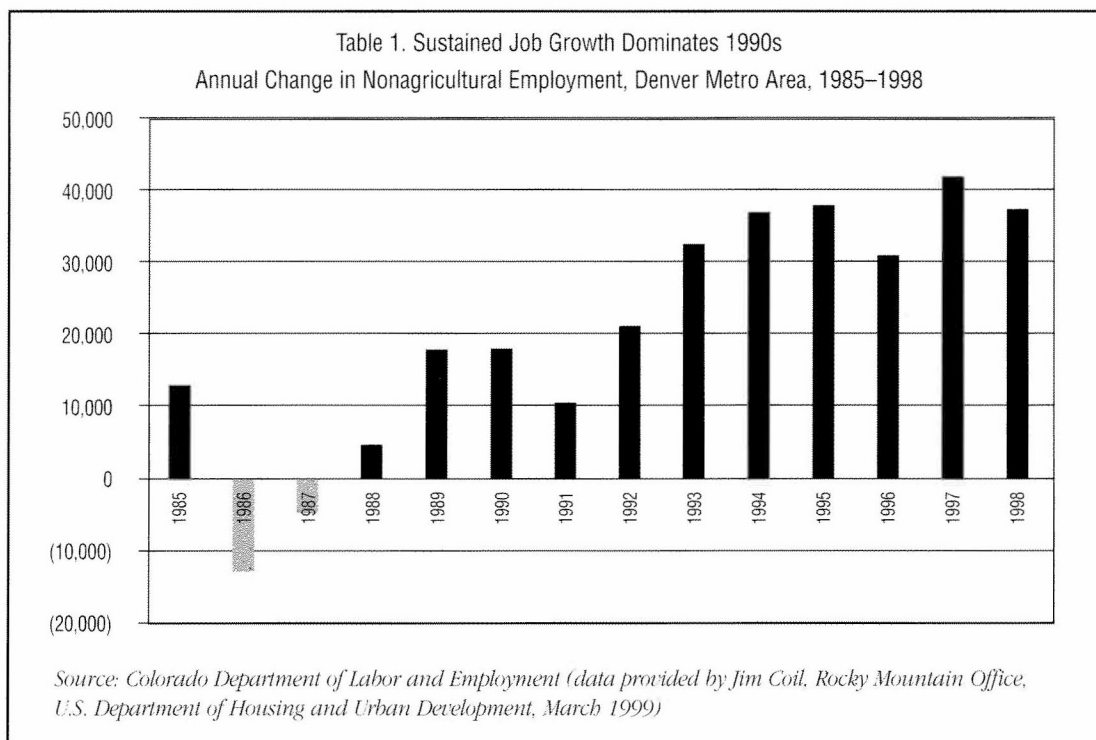
HOUSING COSTS IN THE METROPOLITAN AREA

Average costs for owner-occupied housing increased by over 80 percent between 1990 and 1998 in the Denver Metropolitan Area. They now exceed \$210,000 for a detached home and \$121,000 for a condominium.

The National Association of Home Builders (NAHB) reports that the costs of homeownership rose more rapidly and the affordability of for-sale housing fell more rapidly in the Denver Metropolitan Area than in most other metropolitan areas. At the start of the decade, for-sale housing in the Denver Metropolitan Area was more affordable or less expensive in Denver than in 150 other metropolitan areas of the U.S. By 1998, the date of the last NAHB survey, the Denver Metropolitan Area was less expensive than only 80 metropolitan areas.

Average apartment rents also have gone up rather dramatically since the beginning of the decade. The percentage increase of 70 percent through 1998 was only slightly less than the percentage increase for owner-occupied housing. In actual dollars, average rents grew from \$395 in 1990 to \$670 per month in 1998. Approximately half of the \$275 increase was due to inflation. About \$50 of the increase related to catch-up economics; that is, an effort by landlords in the early 1990s to restore

²The Annual Housing Survey completed in 1995 by the U.S. Bureau of Census classified households earning under 30 percent of the area's median income as extremely low-income. They classified households earning between 31 and 50 percent of the area's median income as very low-income. The current median household income in the Metropolitan area is approximately \$48,000. The current median household income in Denver is approximately \$36,000. The source for median income estimates is staff extrapolations from the U.S. Census and CACI Marketing Systems, a national firm that advises government agencies and private corporations.



rent levels to their pre-recessionary 1985 purchasing power.

HOUSING COSTS AND INCOME TRENDS IN THE CITY AND COUNTY OF DENVER

The city of Denver's housing market, like the metropolitan area market, has reflected several high and low points over the last twenty years. Since the early 1990s, housing costs have increased markedly. Household incomes also have moved upward. Overall, affordability problems for most households have *not* grown significantly. This fact, however, should not blur the fact that relatively *large numbers* of Denver households, particularly *low-and moderate-income renter households*, face major housing affordability difficulties. Further, this should not blur the fact that *many first-time homebuyers*, particularly those earning under the median income, find their housing choices limited in Denver.

RENTAL UNITS

Rents in Denver have escalated rapidly. Between the first quarter of 1993 and the fourth quarter of 1998, average apartment rents in the city rose by 41.6 percent. While the percentage increase is lower than the increase of 46.7 percent reflected in the metropolitan area, it is much, much higher than the increase in the cost of living of 19 percent recorded during the same period.

Interestingly, rents rose faster in older buildings; buildings housing a disproportionate share of low- and moderate-income households. For example, buildings built before 1960 reflected a 47.6 percent increase. Buildings built from 1980 to 1989 illustrated only a 25 percent increase. Rents for efficiency and one bedroom units grew by 43.8 percent while two-bedroom, two bath-units grew by 36.6 percent. Per-capita



income increases generally kept pace with average rent increases during the 1990s.³ But focusing on average or median income statistics often obscures the affordability problems faced by many renter households. For example, the 1995 Annual Housing Survey indicates that over 40 percent of the nearly 110,000 renters in Denver paid 30 percent or more of their income for rent and utilities.⁴ Approximately 17,000 or 17.5 percent renters paid half or more of their income for housing.

Despite the fact that Denver has well over 60 percent of the affordable rental housing units in the metropolitan area,⁵ housing problems are severe for Denver's low-income renters. Nine out of ten low-income renter households in Denver paid 30 percent or more of their income for housing in 1995. Nearly six out of ten low-income renter households spent 50 percent or more of their income for housing. While definitive data concerning the current housing situation of low- and moderate-income renter households will not be available until the year 2000 Census or completion of a city-initiated survey, given the recent relatively rapid *rise in rents, the proportion, if not the number of low-income households* presently allocating *more than 30 percent* of their income for housing likely has grown in Denver since 1995.⁶

FOR-SALE UNITS

Per capita income increased by 27.1 percent between 1991 and 1995 while for-sale housing

prices rose by 45.4 percent during the same period. Yet, only a small percentage—about 20 percent—of homeowners allocated over 30 percent of their income for housing in 1995. Despite the fact that the gap between per capita income and housing cost increases persisted through 1998,⁷ no major increase appears to have occurred in overall cost income relationships between 1995 and 1998. Relatively low interest rates during most of the 1990s permitted new owners to keep mortgage payments in line with their incomes. Similarly, refinancing opportunities related to low interest rates allowed many existing owners to reduce their mortgage obligations. Regulations guiding bank or mortgage company approval of mortgages assured a reasonable relationship between an owners' income and housing costs. Put another way, financial institutions did not approve mortgages if buyer incomes were out of line with the costs associated with the amortization of principal and interest on a unit.

The relatively rapid rise in housing prices over the past decade has probably been good for most Denver homeowners. Increased sales prices increased equity. Overall, homeownership in Denver increased as it increased in the entire metropolitan area.

Lower-income owner households may not have done as well housing-wise as their wealthier counterparts. Their refinancing options, given their low incomes and the lower values associated with their housing units, often were limited. Their

³Between 1991 and 1995, apartment rents grew by 33 percent and per capita income by 27.1 percent. Between 1995 and 1998, per capita income grew by 15.5 percent and rents by 14.3 percent.

⁴It is interesting to note, given this fact, that Denver has proportionately far more affordable rental housing within city limits than the metropolitan area.

⁵About 22.7 percent of the occupied rental housing units in Denver rented for \$350 or less per month in 1995; over 60 percent of the rental units in this price category in the metropolitan area were in Denver. Of Denver's rental units, 47.2 percent rented for between \$350 to \$600 per month in 1995. They constituted 46.2 percent of metropolitan rental units in this category in 1995.

Rents, clearly, have increased since 1995. Current rent levels in each category are much higher than in 1995. But based on a review of available metropolitan survey data concerning average rent levels and interviews with brokers, Denver remains the home of by far the largest share of affordable rental housing in the metropolitan area.

⁶According to CACI Marketing Systems—a respected national consulting firm—there are fewer total low-wage households in Denver now than in 1995. The percentage of households paying 30 percent or more of their income for housing probably, likely, has increased, given the fact that income for individuals and households earning below the median income has not increased as fast as rent levels in recent years.

⁷Per-capita income rose by 15.5 percent between 1995 and 1998. Average apartment rentals in the city rose by 14.3 percent. Average home prices increased by 35.8 percent.



incomes often precluded equity loans. Tax increases resulting primarily from increases in assessed values stretched their housing budgets.

It is difficult, given data limitations, to determine the extent to which present home prices in Denver preclude new homebuyers or would-be homebuyers from finding a house in Denver. Clearly, recent sales of housing units in the city suggest that Denver offers buyers by far a larger number and percentage of for-sale units under \$110,000 than any other community in the metropolitan area, or the entire metropolitan area at the present time.⁸ *At the same time*, however, very few units have been built in Denver or indeed the Metropolitan area for under \$100,000.⁹

The housing market in Denver, particularly for low- and moderate-income households, appears to have tightened significantly. Job growth, including jobs offering salaries below the median income, has out-paced housing unit growth. Similarly, household growth appears to have kept pace with housing unit growth. Vacancy rates are relatively low. Competition for older existing units, according to broker reports, is generally intense, driven in part by the absence of new production. “Filtering up” of existing vacant affordable housing units to higher income households rather than “filtering down” of vacated units once owned by upper-income to lower-income groups is likely now occurring in the city.

First-time homebuyers desiring to live in Denver who earn well under the median income face increasingly narrow choices. They often must look outside Denver for for-sale housing. The average wage for all industries in Denver—close to \$38,000—permits increasingly limited housing choices in Denver. Clearly, one-worker households, particularly households with children

earning at or below the average wage, for example, in retail trades, will experience difficulty finding many purchase or rental choices in Denver at the present time. Similarly, entry-level teachers, policemen and firefighters with children, who must depend on their own income for housing, will find housing relatively scarce in the city.

AN AFFORDABLE HOUSING INDEX

An Affordable Housing Index was developed under the direction of the Center by The Genesis Group. It identifies and compares recent housing market trends. The Index measures what the median income can buy or rent in terms of the median price of existing and new housing and

Table 1. For-Sale Housing^a Affordability Index^b
Metropolitan Area

	Downpayment			
	3%	5%	10%	20% ^c
1996	0.93	0.97	1.04	1.23
1997	0.98	1.02	1.10	1.30
1998	1.06	1.11	1.19	1.41
1999 ^d	0.98	1.03	1.11	1.29

^aThe Rental Housing Index for the metropolitan area trended up from 1996 through 1998. It declined during the first six months of 1999. The index was 1.38 in 1996, 1.44 in 1997, 1.49 in 1998, and 1.45 in 1999.

^bMedian household income as a percentage of income required to purchase a median priced home—attached and detached. Assumes 30 percent of income, mortgage payment constant, income rate, and PMI calculations appropriate for each year. This index was prepared for the Center by the Genesis Group.

^cNo PMI is required for 20 percent downpayment.

the average cost of rents. If the median income-housing price relationship is over 1.00, a household earning the median income will be able to afford more than the median price of housing or the average rent; if it is less, the opposite is true. If the median income-housing cost relationship is trending upward, there are more housing choices for most income groups; if it is trending downward, the opposite is true (Tables 1 and 2).

⁸About one third of the 14,257 homes sold in Denver between 1997 and 1998 were purchased for under \$110,000 dollars. Only 16 percent were sold in the price range in the metropolitan area.

⁹Significantly, only 21 out of the total of 1,972 units of new for sale homes were built and sold in Denver for under \$100,000 in 1998. Of new for sale, 364 homes were built and sold in Denver for between \$100,000 to \$125,000. Only 391 out of 15,362 units were built and sold in the 5 county metropolitan area during the same time period for under \$100,000, while 1,391 units were built and sold for under \$125,000.



Table 2. For-Sale Housing^a Affordability Index^b
Denver

	Downpayment			
	3%	5%	10%	20% ^c
1996	0.80	0.84	0.90	1.06
1997	0.84	0.88	0.95	1.10
1998	0.88	0.92	0.99	1.17
1999 ^d	0.78	0.82	0.88	1.04

^aLike its metropolitan area counterpart, the rental affordable housing index for Denver has remained relatively stable since 1996. For example, in 1996, the rental index was 1.01; in 1997, the index was 1.07; in 1998, the index was 1.12. It declined during the first six months of 1999 to 1.06.

^bMedian household income as a percentage of income required to purchase a median priced home- attached and detached. Assumes 30 percent of income, mortgage payment constant, income rate, and PMI calculations appropriate for each year. This index was prepared for the Center by the Genesis Group.

^cNo PMI is required for 20 percent downpayment.

^dFirst six months.

FROM HOUSING STABILITY TO INCREASED AFFORDABILITY PROBLEMS

Income growth generally has kept pace with housing-cost growth. As a result, until relatively recently, the Index measuring the relationship of median household income to median housing costs and average rents remained relatively stable in both the metropolitan area and Denver.

This is the good news! The bad news is that during the last year or so a noticeable deterioration in the Affordability Index has occurred with respect to both for-sale units and rental units in both the metropolitan area and Denver.

Increased interest rates and rapidly increasing housing costs are taking their toll. Clearly, the housing market is tightening in the metropolitan area. Households earning well under the median income have much fewer housing choices in the metropolitan area than they did a year ago.

The Index suggests many emerging problems in the city of Denver. Escalating housing costs have made access to an affordable unit seem more like a dream than reality for many low- and moderate-income residents of Denver.

DENVER'S NEIGHBORHOODS: HOUSING CONDITIONS, HOUSING VALUES AND HOUSING CHOICES

Housing Conditions: Units in Good Shape

Housing in Denver and in Denver's neighborhoods is in pretty good shape. Very few units illustrate significant physical deficiencies or overcrowding.¹⁰ While disproportionate numbers of housing units in poor condition are occupied by low-income households, overall housing conditions, even for the poor, are quite good.

Housing Values: Increases & Decreases

Interestingly, housing prices have increased in most all neighborhoods in the city. The percentage increases have been largest in some of the neighborhoods occupied predominantly by low-income households (Table 3). But this fact should be understood in the context of the lower housing values generally present in these same neighborhoods. Put another way, if the value base is low, relatively modest increases in dollar value will produce high percentage increases in value. In dollar terms, more affluent households residing in more affluent neighborhoods have benefited more from Denver's current bullish housing economy than lower-income households living in lower income neighborhoods. Significantly, low-income neighborhoods in Denver tend to illustrate both relatively large percentage increases in housing values when the housing market moves upward and relatively large decreases in housing values when the housing market moves downward.

¹⁰According to the Annual Housing Survey, only 2.2 percent of Denver households reported physical deficiencies (e.g. lack of complete plumbing, exposed wiring and lack of cooking facilities) in 1995. Only 3.0 percent of all low-income households occupied housing with one or more physical deficiencies. Only 2.0 percent of Denver households suffered from overcrowding in 1995 according to the Annual Housing Survey. Overcrowding is concentrated among renters. Overcrowding percentages are higher for low-income households.



Table 3. Homes Sales Price by Poverty Level of Neighborhood in Denver

	Average Home Sales Price						Median Home Sales Price	
	Value			Percentage Change		Absolute Change	Value	Percentage Change
	1986	1991	1998	1986-1991	1991-1998	1991-1998	1998	1996-1998
Neighborhoods with Poverty Rates Higher than 28%	\$56,938	\$45,213	\$108,211	-19.7%	141.4%	\$ 62,998	\$ 93,000	29.3%
Neighborhoods with Poverty Rates of 15%-28%	\$76,219	\$69,320	\$147,682	-11.3%	115.0%	\$ 78,364	\$114,000	27.4%
Neighborhoods with Poverty Rates of 7%-15%	\$87,059	\$84,616	\$176,283	-3.5%	108.7%	\$ 91,465	\$139,900	18.6%
Neighborhoods with Poverty Rates below 7%	\$122,603	\$127,265	\$252,866	1.7%	99.7%	\$125,600	\$189,000	22.7%

Note: The figures reported in the table are based on a neighborhood-level data base. Neighborhoods with few residential transactions are excluded from the analysis of housing prices.

Higher home values provide greater incentives and opportunities for owners to invest in housing and improve its quality. City-wide, the number of permits for projects costing \$5,000 or more increased from 1,269 in 1995 to 2,243 in 1998, or by almost 77 percent in only three years. High percentage increases in housing values have not fully translated into investments in housing quality in the city's poorest areas, however. Home improvement activity is less intense in the city's poorest neighborhoods and it has increased at a less rapid pace. High-poverty neighborhoods accounted for 316 permits in 1998, which is 14 percent of all permits granted in the year. This is less than these neighborhoods' share of total housing units. The rate of increase in permits granted in these neighborhoods between 1985 and 1998 (31 percent) is markedly lower than the increase in any of the other categories of neighborhoods.

Housing Choices: Neighborhood Change

The strong housing market in Denver has caused investors, developers and first-time homebuyers to look at older neighborhoods, closer to downtown. These neighborhoods are now housing relatively large numbers of low- and moderate-income households. They are convenient to urban amenities. Some are rich in history. Many contain very attractive design elements. Fears concerning safety and, for example, poor schools have been overcome by "good buys" with respect to housing and intuitive judgements concerning likely neighborhood change.

Neighborhood change can bring many good things. It can lead to more social and economic diversity. It can generate increased housing choices for former neighborhood residents who want to return, or for young adults now living with their



families who want to move out on their own without leaving their neighborhoods. It can offer ownership opportunities for neighborhood renters. It can permit present owners to cash-out on their equity and move to other, sometimes superior, quarters. All this appears to be occurring in Denver's older, close-in neighborhoods at the present time.

But anecdotal evidence, as well as a review of federally funded school lunch programs and rental data, also suggests that some gentrification¹¹ is occurring. Because of market pressures, many lower income households, particularly renter households, have been forced to look elsewhere for housing. Where they are going and what their housing situation is after relocation is difficult to discern without further study.¹²

Possible neighborhood transformation scares many existing residents. They worry about their housing situation; they worry about their friends and neighbors; they are afraid of the unfamiliar. The following comments from focus groups initiated by the Annie E. Casey Foundation seem to reflect broad concerns in close-in Denver neighborhoods.

"While the average home sales price...remains well below that for Denver as a whole, such rapid increases tantalize many neighborhood homeowners with rapidly increasing home equities. Many others, homeowners and renters alike, who wish to remain in the neighborhood that nurtured them and their families, fear they can no longer afford to live in this place they call home. Residents say it is not unusual to find two or more families living in two-bedroom housing

in the neighborhood. Without exception, all residents interviewed are concerned about the availability of affordable housing. Older residents are concerned about having their children leave the neighborhood because they can't afford the housing prices. Others are concerned that homes on their block are being gentrified and taken over by owners who are not interested in the community." ("Transforming Denver's Near Westside," Annie E. Casey Foundation, June 1999, page 6.)

"In addition to this demographic shift (from Afro-Americans to Latinos),¹³ there is an income shift that residents fear will make their neighborhood less affordable and feel less welcoming to the lower- and middle-income residents. Much of this shift has been driven by changes in housing affordability and availability creating what is viewed as rapid gentrification of the neighborhood." ("Transforming Denver Neighborhoods—A Profile of the Cole Neighborhood," Annie E. Casey Foundation, June 1999, page 4.)

CONVERSION OF PROJECT-BASED SECTION 8 UNITS TO MARKET RATE PROJECTS: A SPECIAL CONCERN

The HUD contracts on over 6,000 Section 8 project-based units will be terminated within the next two years or so. Unless owners agree to a new contractual relationship involving Section 8 rental vouchers or other rental assistance programs, the rents on terminated units will be set by the market place.

The precise dimensions of the project-based Section 8 problem are unknown. Different experts provide different "guesses" concerning the number of units that will revert to market rents. They

¹¹Gentrification is generally defined as a market driven development process leading to conversion of a low-income neighborhood to a higher income neighborhood. Generally, housing quality is improved through renovation and new construction and prices become higher for both for-sale and rental units. Neighborhood changes often lead to the displacement of long time existing residents who can no longer afford to live in the neighborhood.

¹²Interviews with brokers familiar with close-in older areas occupied by disproportionate numbers of low-income households confirm that gentrification is occurring. Discussions with Piton and Anne E. Casey Foundation Staff also indicate that neighborhood changes and gentrification are visible. Existing data concerning the increase in the free school lunch program in the older suburbs combined with data recorded in this report with respect to rent increases also support assumptions concerning gentrification. It is likely that older sections of surrounding suburbs have attracted lower-income households from Denver.

¹³Hispanics appear to be moving in increased numbers to once predominantly black neighborhoods like Cole and Five Points.



range from a low of 600 units to a high of nearly 2,000 units.

Clearly, if current market conditions continue in Denver, owners of Section 8 project-based units will be encouraged to think that they might do better by opting-out of the project-based program. But even if the market remains strong, a number of factors make it difficult to estimate the precise impact of contract termination. For example, some owners of project-based Section 8 units, given the location and condition of their units, may not want to risk relying primarily on the market place. Predictability concerning the rent support provided by Section 8 vouchers may provide an attractive alternative. Other owners may want to sell their interests in project-based Section 8 units to nonprofit groups eager to provide housing to low-income households.

Whatever the final conversion number is—whether it is closer to 600 or 2,000—a relatively large number of people could find themselves paying more for housing or having to secure alternative housing, in many instances, located in alternative neighborhoods. Their choices will be limited because of the present tight housing market. Availability of Section 8 enhanced and regular vouchers¹⁴ will help some tenants. But it is not certain yet how many Section 8 vouchers, including enhanced vouchers, will be available. It also is not certain how long enhanced vouchers will be available to help tenants remain in project-based units once they are converted to market-rate units. Finally, it is not certain how effective vouchers will be in helping tenants, who must relocate from project-based units to other units, given escalating rents and the shortage of affordable rental housing units in Denver.

FROM PROBLEM DEFINITION TO EFFECTIVE POLICIES AND PROGRAMS

Based on this study, the city and its citizens should begin to wrestle with several policy questions. For example, given the fact that Denver has a *disproportionate share* of affordable housing in the metropolitan area, what *should* the affordable housing role of the city be with respect to the broader metropolitan area and surrounding jurisdictions? Further, given the fact that despite the relatively large number of affordable housing units in Denver, the city still has *critical affordability problems*, what should Denver's role be with respect to increasing the supply of affordable housing in the city? Finally, given the fact that gentrification or the *displacement* of some low-income households by higher-income households appears to be occurring in some older, close-in neighborhoods, how should Denver assure consistency between its neighborhood revitalization objectives and its affordable housing needs?

These questions suggest complex benefit and cost issues concerning alternate housing policies and programs. They also suggest difficult issues concerning fairness. They must be responded to in order to assure the most effective use of always-limited affordable housing dollars.

Efforts to respond to broad policy questions, however, need not and should not delay simultaneous efforts to carefully consider options to amend present and develop new housing programs responsive to the analysis and findings of this study. Indeed, a cut-and-fill process integrating policy discussions and program considerations will help assure the best possible outcome in terms of maximizing Denver's limited housing dollar. Based on the analysis and findings of this

¹⁴Enhanced vouchers are and will be used to give tenants a chance to continue to occupy their present units. The level of support provided by the voucher is not limited by standards concerning the area's market-rate rent.



study, the City and County of Denver should consider amending and where necessary expanding or developing new housing program initiatives.

1. DEVELOPMENT OF STRATEGIES TO ASSURE METROPOLITAN COOPERATION IN DEVELOPING INCREASED SUPPLIES OF AFFORDABLE HOUSING.

Denver has by far the largest supply of affordable housing in the metropolitan area. Indeed, it has a disproportionate share of such housing. Clearly, other public jurisdictions and the region as a whole should step up to the plate, so to speak, and foster the development of new affordable housing units. Efforts to date, while often visible, have been relatively minuscule—noted more for headlines than real impact. The metropolitan area's leadership has shown a can-do attitude in converting objective to reality with respect to important developments like the airport, the new Bronco stadium; the expansion of I-25 and RTD, and the Scientific and Cultural Facilities District. It has the same capacity to convert objectives concerning expanded affordable housing choices to reality in terms of increasing the supply of such housing throughout the metropolitan area.

Public, private sector and community leadership will be required to induce metropolitan cooperation with respect to housing. Denver's advocacy for the following kinds of alternatives will be necessary to secure significantly expanded metropolitan wide housing opportunities for low- and moderate-income households now confined by and large to residence in Denver. Denver should consider conditioning its support for pending “smart growth” initiatives if they do not include metro-wide affordable housing commitments. The city should push for the creation of a

metropolitan-wide housing plan and annual report card concerning affordable housing development in the metropolitan area. The city should ask all jurisdictions in the metropolitan area to review and amend development regulations and development-review processes that negatively impact on development of affordable housing.¹⁵ Finally, the city should foster an agreement in the metropolitan area to establish a Housing Trust Fund to support development of affordable housing and/or to provide housing support for low- and moderate-income households. The Trust Fund could be modeled after the numerous Housing Trust Funds set up around the nation. It could rely on contributions from developer-builders based on units¹⁶ built or contributions from employers in the area.

2. DEVELOPMENT OF STRATEGIES TO INCREASE THE SUPPLY OF AFFORDABLE RENTAL HOUSING OPPORTUNITIES FOR LOW- AND MODERATE-INCOME HOUSEHOLDS.

Low- and moderate-income households must allocate a relatively high portion of their income for rental housing. Various options should be considered by the city to encourage development of an increased supply of affordable rental units. Among them: increased use of CHFA and CDA funding to lower the costs of development and financing of affordable rental projects; and increased use of density bonuses, fee rebates, infrastructure incentives and land write downs to encourage development of affordable rental housing.

City initiatives, to the extent possible, should integrate development of affordable housing with market-rate housing and other compatible uses. Mixed-use projects, for example, on in-fill or skipped over land would be preferable to stand-alone rental developments.

¹⁵The City and County of Denver should provide a model by beginning with its regulations and review processes.

¹⁶The Foundation for Educational Excellence founded by Pat Hamill, CEO of Oakwood Homes and Marshall Kaplan, Executive Director of the Center for Affordable Housing and Quality Education, provides a useful prototype. Its funding sources are voluntary contributions from homebuilders and commercial/industrial establishments based on a formula geared to new square foot construction and or general size. Its “corpus” is increasing every year. It provides grants for innovation in schools in the Green Valley Ranch, Montbello and Gateway Communities.



3. DEVELOPMENT OF STRATEGIES TO EXTEND HOUSING OPPORTUNITIES FOR FIRST-TIME HOMEBUYERS.

Rising prices, increased interest rates and a shortage of new affordable for-sale housing have put the squeeze on would-be first-time homebuyers desiring to live in Denver. This is particularly true of potential buyers from households with only one worker earning entry-level wages in the public sector (e.g., school teachers, police personnel, etc.). But it is also true of some one-worker households earning entry- or near entry-level wages in the private sector.¹⁷ Given the desirability of locating housing and jobs near one another, Denver should consider alternatives used in other cities to increase the supply of affordable for-sale housing—housing priced at, near or below \$100,000. They should include: linking fast track approval of mixed-use developments on infill or skipped-over land to developer willingness to build a percentage allocation of affordable for-sale housing; and integrating strategic use of fee rebates, infrastructure assistance, density bonuses, and land write-downs to facilitate construction of affordable for sale units. Finally, and importantly, they should include designing and carrying out a coordinated and efficient project-review process. Time is money to builders and excessive delays translate into increased housing costs. The review process concerning proposed developments should balance affordable housing objectives with design judgements.

4. DEVELOPMENT OF AFFORDABLE HOUSING STRATEGIES TO DEAL WITH THE CONVERSION OF PROJECT-BASED SECTION 8 UNITS.

Contracts on many project-based Section 8 units will soon expire in Denver. Whether the number

of units converted from project-based to market-rate units reflects high-end possibilities or low-end probabilities, many involved households will face hardship. The city should convene a working task force composed of interested foundations, public agencies, community groups, and private sector financial institutions to work on strategies to minimize problems. Several options should be considered, among them: providing assistance to qualified nonprofit groups to purchase project-based units and rent them to existing tenants; helping owners refinance present Section 8 projects if owners commit to continue to rent to existing tenants qualifying for Section 8 vouchers or related assistance; helping provide access to the maximum number of new Section 8 vouchers for present tenants of project-based units after conversion of such units to market rate projects; and helping assure maximum use of “enhanced” vouchers to permit tenants to rent their units after conversion to market rental rates.

¹⁷For example, the entry level incomes of a firefighter is \$33,028; of a police officer, \$32,640; of a teacher \$24,949. The firefighter could afford a unit costing \$101,573; the police officer \$100,385; the teacher \$73,050. Relatively, few new units were built in Denver for these prices. Existing units matching these price ranges are often subject to intense competition, if they are in reasonable shape and in reasonable locations.