

**Memorandum**

**TO:** Mayor and City Council

**THROUGH:** Patrick Goff, City Manager

**FROM:** Shannon Terrell, Senior Housing Planner  
Jana Easley, Planning Manager  
Lauren Mikulak, Community Development Director

**DATE:** July 7, 2025

**SUBJECT:** Inclusionary Housing Zoning (IHZ) Update

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**ISSUE:**

Council is being asked to consider the structure of a potential Inclusionary Housing Zoning (IHZ) program or an alternative program to support the implementation of the city's Affordable Housing Strategy and Action Plan.

**PRIOR ACTION:**

At a study session on June 3, 2024, council supported staff's recommendation of an IHZ program structure and authorized a feasibility analysis. In August 2024, council approved a supplemental budget appropriation to hire a consultant to conduct the study.

**BACKGROUND:**

The Affordable Housing Strategy (AHS) and Action Plan recommends that the city explore an Inclusionary Housing Zoning (IHZ) program as a potential funding source for the city's Housing Fund. Last summer, staff presented to council programmatic components of an IHZ program and made the following recommendations:

- Make the program mandatory as opposed to voluntary
- Establish a fee-in-lieu per unit option that is below the cost of constructing a unit
- Require a set-aside of 10% of all new residential units to be affordable to households at 80% to 120% Area Median Income (AMI)
- Apply affordability requirements to all new residential developments of 10 or more units city-wide
- Design the program to minimize the long-term administrative burden on the city

Council provided consensus on the program structure, and staff retained a consultant in the fall of 2024 to determine the feasibility of the following components on an IHZ program: 1) affordability range, 2) applicability requirements, and 3) fee-in-lieu amount.

Details from the study are available in **Attachment 1: Summary of Consultant Feasibility Analysis**.

The feasibility analysis reviewed staff's recommendations for program structure and included three main takeaways:

1. Rental developments limited to charter cap (less than 21 du/acre) may not be able to absorb the costs of an IHZ ordinance. Projects with higher density allowances can balance the cost to build per unit.
2. Incentives are needed to fill in gaps, but the city's existing charter limits what tools can be used.
3. Based on potential future development, an IHZ program could produce an estimated 177 affordable rental units and 20 for-sale rental units or generate an estimated \$12 million in fees that can be used toward the Housing Fund over the next ten 10-15 years.

The success of an IHZ program relies on a strong real estate market. Staff have concerns about the current state of the market and have reservations about whether an IHZ program is the most effective or appropriate approach for Wheat Ridge at this time. As part of this process, staff interviewed eight residential developers to gather feedback on the potential impacts of an IHZ program. Most developers cautioned staff that an IHZ program would have some unintended consequences on the development market in Wheat Ridge and concluded with four main takeaways:

1. The added cost of an IHZ program could increase the cost of market-rate housing, putting that burden on renters and buyers.
2. Smaller developments (fewer than 20 units) would not be able to absorb the cost of an IHZ program. The IHZ feasibility analysis also confirmed this finding.
3. Market volatility is making construction costs uncertain due to several factors, including tariffs, inflation, worker shortages, and materials costs. These factors continue to shrink the margins for developers, making projects risky to invest in.
4. Developers are choosing not to build in cities with existing IHZ requirements, citing Denver, Boulder, and Broomfield as examples of IHZ programs with too high of an affordability requirement.

## **POLICY OPTIONS:**

Based on these considerations, staff are proposing four policy options for council's consideration:

**Option 1:** Adopt a traditional IHZ program based on recommendations from the consultant's feasibility study.

**Option 2:** Scale back the IHZ program requirements for smaller developments.

**Option 3:** Explore a linkage fee on all new development.

**Option 4:** Take no action at this time.

These four options are described in more detail below:

**Option 1 – Adopt a traditional IHZ program**

Following council's discussion last summer, staff hired a consultant to evaluate the financial feasibility of a proposed inclusionary housing program, including income targets, applicability thresholds, and fee-in-lieu options. Key findings are summarized in **Attachment 1: Summary of Consultant Feasibility Analysis**.

Based on a review of similar programs, policy trends, and local market conditions, the consultant recommended the following program structure:

Figure 1: Recommended IHZ Program Structure

| Program Structure    |   |
|----------------------|---|
| <b>Applicability</b> | Mandatory for all new development projects with 10 or more units  |
| <b>Set-Aside</b>     | Rental: 10% of units affordable at 80% AMI<br>For-Sale: 10% of units affordable at 100% AMI   |
| <b>Duration</b>      | 30 years (deed-restricted)  |
| <b>Alternatives</b>  | Fee-in-lieu:<br>Rental: \$58,811 per unit<br>For-Sale: \$97,827 per unit  |
| <b>Incentives</b>    | <ul style="list-style-type: none"><li>• Expedited Review</li><li>• URA TIF Financing, where applicable</li></ul>  |
| <b>Exemptions</b>    | <ul style="list-style-type: none"><li>• Developments with 100% affordable, deed-restricted units funded by federal, state, or local government funding sources</li><li>• Developments with 50% affordable units, owned by a charitable trust, housing authority, or eligible tax exemption.</li></ul> |

This program as proposed could directly support the creation of affordable housing units and establish a secondary funding source for the housing fund. Implementing an inclusionary housing policy would also align with state housing goals and support the implementation of recent state legislation, improving eligibility for future state and federal funding.

However, there are tradeoffs that council should consider. While the consultant's analysis provides valuable data, staff have reservations about several key assumptions, especially regarding project feasibility. Based on conversations with local developers and a review of Wheat Ridge's development patterns, staff are concerned that

implementing the program as proposed could make many residential developments financially infeasible due to current market volatility. This may inadvertently slow housing production and undermine the broader goal of housing diversity and growing the Housing Fund.

If council's primary goal is to require the direct production of affordable units through new development, this program structure aligns with that approach. However, if the City's goal is to establish a sustainable, long-term funding source for affordable housing, this approach may not be the most effective or appropriate tool.

### **Option 2 – Scale back IHZ program requirements for smaller developments**

Based on an analysis of development capacity, most future residential projects in Wheat Ridge over the next 10-15 years will likely occur on small infill lots less than 2 acres in size and with less than 20 units total due to available land, zoning, height limits, and infrastructure constraints (Figure 2). Conversations with developers confirm that these smaller projects face unique challenges that cannot be offset by increased density.

Figure 2: Development Capacity Analysis (10-15 years)

| Potential Future Development Projects | Projects | Units | Average Parcel Size (Acres) |
|---------------------------------------|----------|-------|-----------------------------|
| Less than 10 units                    | 20       | 125   | 0.56                        |
| 10-19 units                           | 18       | 242   | 1.23                        |
| 20-29 units                           | 7        | 170   | 1.97                        |
| 30-39 units                           | 5        | 172   | 2.58                        |
| 40-49 units                           | 3        | 134   | 2.05                        |
| 50-59 units                           | 2        | 105   | 0.73                        |
| 60 units or more                      | 12       | 2,015 | 4                           |

To reflect market realities and to reduce development barriers, Option 2 introduces a graduated fee-in-lieu structure based on project size, as shown below. Projects with fewer than 20 units would see a reduced fee-in-lieu from 50% to 95% based on unit count, as shown in Figure 3. This could still generate enough to support the Housing Fund, around \$1.2 million over 10-15 years or \$100,000 annually, based on speculative development proposals.

Figure 3: Potential fee reduction for projects with 10-19 units

| Number of Units | Reduction | IHZ Rental Fee | Reduced Fee | IHZ For-Sale Fee | Reduced Fee |
|-----------------|-----------|----------------|-------------|------------------|-------------|
| 10              | 50%       | \$58,811       | \$29,406    | \$97,827         | \$48,914    |
| 11              | 55%       | \$58,811       | \$32,346    | \$97,827         | \$53,805    |
| 12              | 60%       | \$58,811       | \$35,287    | \$97,827         | \$58,696    |
| 13              | 65%       | \$58,811       | \$38,227    | \$97,827         | \$63,588    |
| 14              | 70%       | \$58,811       | \$41,168    | \$97,827         | \$68,479    |
| 15              | 75%       | \$58,811       | \$44,108    | \$97,827         | \$73,370    |
| 16              | 80%       | \$58,811       | \$47,049    | \$97,827         | \$78,262    |
| 17              | 85%       | \$58,811       | \$49,989    | \$97,827         | \$83,153    |
| 18              | 90%       | \$58,811       | \$52,930    | \$97,827         | \$88,044    |
| 19              | 95%       | \$58,811       | \$55,870    | \$97,827         | \$92,936    |

The feasibility analysis also confirmed that projects with less than 60 units would not be able to absorb a fee-in-lieu in the current market (**See Attachment 1**). In addition to a reduction for projects with fewer than 20 units, projects with 60 units or fewer could see a reduced fee-in-lieu from 75% to 95% based on project size. This could generate approximately \$9.5 million over 10-15 years, or \$800,000 annually, based on current or speculative development proposals.

Figure 4: Fee-in-lieu for projects with 20+ units

| Number of Units | Percent Required | IHZ Rental Fee (\$58,811 /du) | Reduced Fee | IHZ For-Sale Fee (\$97,827 /du) | Reduced Fee |
|-----------------|------------------|-------------------------------|-------------|---------------------------------|-------------|
| 20              | 75%              | \$117,622                     | \$88,217    | \$195,654                       | \$146,741   |
| 30              | 80%              | \$176,433                     | \$141,146   | \$293,481                       | \$234,785   |
| 40              | 85%              | \$235,244                     | \$199,957   | \$391,308                       | \$332,612   |
| 50              | 90%              | \$294,055                     | \$264,650   | \$489,135                       | \$440,222   |
| 60              | 95%              | \$352,866                     | \$335,223   | \$586,962                       | \$557,614   |
| 70              | 100%             | \$411,677                     |             | \$684,789                       |             |
| 80              |                  | \$470,488                     |             | \$782,616                       |             |
| 90              |                  | \$529,299                     |             | \$880,443                       |             |
| 100             |                  | \$588,110                     |             | \$978,270                       |             |
| 200             |                  | \$1,176,220                   |             | \$1,956,540                     |             |
| 300             |                  | \$1,764,330                   |             | \$2,934,810                     |             |

This graduated fee approach maintains the traditional inclusionary zoning framework but lowers the financial burden on smaller and mid-sized infill projects, which comprise most of the anticipated development in Wheat Ridge. The program structure is still expected to generate a combined amount of \$10.7 million for the Housing Fund over

10–15 years and aligns with practices in other Colorado cities like Littleton, offering flexibility to adapt to market conditions.

The tradeoffs include potentially fewer on-site affordable units or fees generated as compared to Option 1 but has less of an overall impact on development in Wheat Ridge. Staff recommends this option over Option 1 if council still prefers a traditional inclusionary framework with a phased, market-sensitive approach.

### **Option 3 – Explore a linkage fee**

Linkage fees, also known as impact fees, are charges local governments assess on all new development (residential and commercial). Unlike inclusionary housing programs, which typically focus only on residential projects, linkage fees tie the need for affordable housing to all growth, including new jobs that increase demand for workforce housing. This approach is more equitable and fosters a shared responsibility, ensuring every new project contributes to the city's housing affordability solutions.

Wheat Ridge currently has impact fees for parkland which are applied only to residential development. The city has also completed an impact fee study to collect fees-in-lieu for streetscape improvements but in most cases, these are built instead of paid. An impact fee to further housing goals is a viable option, and among peer cities, linkage fees are becoming an increasingly common tool. For example, Denver imposes a linkage fee alongside its inclusionary zoning ordinance, applying the charge to all new development, including major renovations. Arvada and Englewood are actively exploring similar strategies, either in tandem with inclusionary zoning or as an alternative.

While similar in purpose to inclusionary zoning programs, linkage fees have some distinct characteristics:

- **Broader Applicability:** Linkage fees can apply to both residential and commercial development, including office, retail, and industrial projects, acknowledging that job growth increases the need for workforce housing.
- **Monetary contribution:** Developers pay a set fee per square foot. The specific rate must be established through a Nexus Study, which quantifies the relationship between new development and affordable housing demand.
- **Legally Defensible:** A Nexus Study is required to demonstrate the connection between new development and the need for affordable housing, establishing a reasonable fee amount to mitigate that impact. A Nexus Study is legally defensible, whereas some inclusionary zoning programs are not.
- **Policy Options:** Council can tailor a linkage fee program to meet local needs, such as applying a lower fee to smaller projects, exempting certain uses, or establishing thresholds by unit count or square footage—similar to strategies proposed in Option 2.

Linkage fees are also more resilient during market fluctuations. Because they apply to all development types and are charged per square foot, they can provide a more stable revenue stream than inclusionary housing requirements, which only apply when residential units are built.

For comparison, the table below illustrates the difference in potential costs between a per-unit IHZ fee-in-lieu and a \$4 per square foot linkage fee:

Figure 5: IHZ fee-in-lieu compared to a linkage fee

| Development Type                      | IHZ Fee-In-Lieu (Option 1) | Gross Square Feet | Linkage Fee           |
|---------------------------------------|----------------------------|-------------------|-----------------------|
| <b>Rental</b>                         | <i>\$58,811 per unit</i>   |                   | <i>\$4 per sq. ft</i> |
| <b>Apartments at city charter cap</b> | \$247,006                  | 37,100            | \$148,400             |
| <b>3-story apartments</b>             | \$352,866                  | 53,000            | \$212,000             |
| <b>5-story apartments</b>             | \$588,110                  | 106,000           | \$424,000             |
|                                       |                            |                   |                       |
| <b>For-Sale</b>                       | <i>\$97,979 per unit</i>   |                   | <i>\$4 per sq. ft</i> |
| <b>Townhomes at city charter cap</b>  | \$410,873                  | 56,400            | \$225,600             |
| <b>Medium Density Townhomes</b>       | \$293,481                  | 44,800            | \$179,200             |
| <b>Condos</b>                         | \$586,962                  | 54,500            | \$218,000             |
|                                       |                            |                   |                       |
| <b>Non-Residential</b>                |                            |                   | <i>\$4 per sq. ft</i> |
| <b>Quick serve restaurant</b>         | Not applicable             | 2,500             | \$10,000              |
| <b>General retail/service</b>         | Not applicable             | 30,000            | \$120,000             |
| <b>Employment</b>                     | Not applicable             | 50,000            | \$200,000             |

These estimates demonstrate that linkage fees typically impose a lower financial burden on residential projects compared to per-unit IHZ fees. This could be especially important in Wheat Ridge, where housing diversity is desired, development margins are tight, and the pipeline of residential projects is diminishing.

If the City's goal is to establish a sustainable and long-term secondary revenue source for the Housing Fund, staff finds that a linkage fee is a more appropriate and equitable fit. Unlike inclusionary housing, which can unintentionally place the financial burden on residential developers, a linkage fee distributes that responsibility across all development types. This also better reflects the city's commitment to treating affordable housing as a community-wide need, not just a housing-sector obligation.

To pursue this option, the City would need to commission a Nexus Study, which is a legally required analysis to determine the relationship between new development and housing needs. Staff estimate the cost of a Nexus Study to be around \$55,000.

#### **Option 4 – Take no action**

Taking action on an inclusionary housing program requires careful consideration of the economy and real estate market. Conversations with developers tell us that now may not be the right time to impose an additional fee on residential developments, and the city may need to decide to impose one with a reduction, take a different approach, or choose to revisit this policy decision when the market changes.

If council decides to take no action, the Housing Fund would still receive an annual contribution of approximately \$400,000 from the city's short-term rental program. This would generate \$4 million over the next 10 years and would still be enough to contribute to affordable housing projects or programs in Wheat Ridge.

#### **RECOMMENDATIONS:**

After evaluating the feasibility analysis, development trends in Wheat Ridge, and peer city programs, staff does not recommend moving forward with Option 1, a traditional IHZ program. This approach risks making future development financially infeasible, particularly given Wheat Ridge's limited land availability and smaller-scale infill projects.

Staff also have hesitations with Option 2, which proposes a scaled-back IHZ program that reduces fee-in-lieu requirements on smaller projects. While this structure is more sensitive to the market, we are concerned it could still constrain residential developers. With the city's modest growth outlook, even a reduced IHZ requirement may inadvertently limit housing production in Wheat Ridge.

Given these concerns and assuming council is still seeking a secondary revenue source for the Housing Fund, staff recommend Option 3, pursuing a linkage fee. This approach could apply to both residential and commercial development, spreading the cost of affordable housing more equitably across all new growth. A linkage fee better reflects housing as a universal community need and is more resilient to market cycles. While estimated revenue (\$6 million over 10 years) is lower than the other IHZ options (Figure 5), this option is less likely to restrict housing development and still creates a secondary revenue source for the Housing Fund.

Based on these considerations, staff have the following questions for council:

1. Does council still want to explore a secondary funding source for the housing fund beyond short-term rental (STR) revenue?
2. If so, would council like to pause further work on IHZ and explore a linkage fee in more detail?



Figure 5: Potential Sources and Uses for Housing Fund

|                                | Option 1: IHZ Program  | Option 2: IHZ Program (reduction)  | Option 3: Linkage Fee  | Option 4: STR Fees                  |
|--------------------------------|--|--|--|-------------------------------------|
| <b>Applies to</b>              | Residential  | Residential  | Residential + Commercial   | Short Term Rentals                  |
|                                | Residential Dev with 10+ units   | Residential Dev with 10+ units   |  |                                     |
| <b>Fee Structure</b>           | 10% at 80% AMI (Rental)<br>10% at 100% AMI (For-Sale)  | Rental: 10% at 80% AMI<br>For-Sale 10% at 100% AMI   | \$4 per square foot  |                                     |
|                                |  | Projects with fewer than 50 units receive a fee reduction of 5-95%                               |  |                                     |
| <b>Assumptions</b>             | Assumes full build-out of projects currently in the development pipeline that are not affordable | Assumes full build-out of projects currently in the development pipeline that are not affordable | Assumes 150,000 square feet of commercial and residential development is built | \$400,000 annually from STR revenue |
|                                |  |  |  |                                     |
| <b>Annual Fee Generation*</b>  | \$1,236,609  | \$893,000  | \$600,000  | \$400,000                           |
| <b>Fee Generation 10 years</b> | \$12.3 million   | \$10.7 million   | \$6 million  | \$4 million                         |

\* these numbers are based on project assumptions including a development capacity analysis and estimated square footage.

## ATTACHMENTS:

1. Summary of Consultant Feasibility Analysis

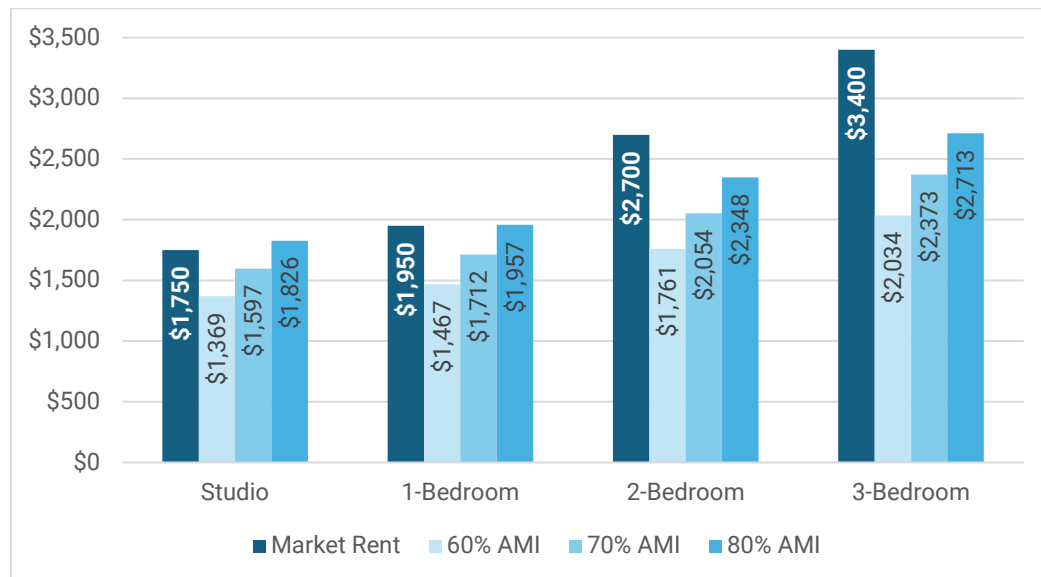
## Summary of Consultant Feasibility Analysis

Following council's discussion last summer, staff hired Ricker Cunningham to evaluate the financial feasibility of a proposed inclusionary housing program, including income targets, applicability thresholds, and fee-in-lieu options. The results from the feasibility analysis informed the recommended program framework, including the income targets, applicability thresholds, and project feasibility.

### RECOMMENDED PROGRAM FRAMEWORK

Data on the current real estate market in Wheat Ridge highlights where an inclusionary housing ordinance can be most effective. Market-rate apartments in Wheat Ridge are currently serving renters earning 80-100% of the Area Median Income (AMI) for studio and one-bedroom units (Figure 1). However, two- and three-bedroom rental units remain unaffordable for these income brackets, serving renters close to 100-120% AMI.

Figure 1: Median Price of Market Rent Compared to Affordable Rents by Unit Type



Source: Ricker Cunningham

For buyers, the situation is even more challenging for moderate-income households. Homes in Wheat Ridge are priced higher than rental units and are predominantly being sold to households earning more than 120% AMI (as shown in Figure 2). This leaves a notable gap in homeownership options for those earning 80-100% AMI.

## ATTACHMENT 1

Figure 2: Median Sales Price of For-Sale Homes Compared to Affordable Sales Price by Unit Type



Source: Ricker Cunningham

The needs assessment conducted as part of the Affordable Housing Strategy and Action Plan (AHS) recommends that an inclusionary zoning program in Wheat Ridge should target renter households earning \$50,000 to \$100,000 and buyer households earning \$100,000 to \$150,000. These incomes correlate to 60-80% AMI for renters and 100-120% AMI for buyers. Based on the local housing needs, the consultants confirmed that the IHZ program should target **renters at 80% AMI** and **buyers at 100% AMI**.

Another component of an inclusionary program is the set-aside requirement. Set-aside requirements are typically based on the number of affordable units a city needs compared to how many units developers can build for a project to be financially feasible. The consultants tested a wide range of affordability set-aside requirements at 5%, 8%, and 10% based on AMI ranges from 60-120% AMI. Based on the considerations outlined above, the consultants confirmed a set-aside requirement of **10% for rental units at 80% AMI** and **10% for for-sale units at 100% AMI**.

## FEE-IN-LIEU

The State of Colorado requires that mandatory inclusionary housing programs shall provide a compliance alternative to constructing affordable units per House Bill 21-1117. The most common alternative is a fee-in-lieu. The fee in lieu is typically calibrated

based on either the cost to construct an affordable unit (known as the development cost method) or the difference in price between a market rate and affordable unit (known as affordability gap method).

Ricker Cunningham calculated the fee-in-lieu using the affordability gap method for rental units ranging from 60-80% AMI and for-sale units ranging from 80-120% AMI based on unit type (number of bedrooms). Figure 3 shows the potential fee-in-lieu based on AMI level for rental from 60-80% AMI and for-sale from 80-120% AMI.

Figure 3: Estimated Fee-in-lieu Payment (Per Unit) based on AMI level

| Fee based on AMI | Rental    | For-Sale  |
|------------------|-----------|-----------|
| <b>60% AMI</b>   | \$179,377 |           |
| <b>70% AMI</b>   | \$116,830 |           |
| <b>80% AMI</b>   | \$58,881  | \$194,366 |
| <b>100% AMI</b>  |           | \$97,827  |
| <b>120% AMI</b>  |           | \$10,969  |

The feasibility analysis recommends a fee-in-lieu at **80% AMI for rental and 100% AMI for for-sale** based on a desire to keep the fee-in-lieu low enough to encourage developers to pay the fee and limit the administrative burden on the city. The recommended fee-in-lieu amounts would be significantly lower than those of the inclusionary program for other peer cities, such as Broomfield and Littleton, whose policy goals differ, but slightly higher than Longmont's inclusionary program (Figure 4).

Figure 4: Inclusionary Fee-In-Lieu Compared to Peer Cities

| IHZ Program        | IHZ Program Detail     | Fee in Lieu per Affordable Unit | Sample Scenario: Total Fee for a 100 unit project (Rental) And 30 unit townhome (For-Sale) |
|--------------------|------------------------|---------------------------------|--|
| <b>Rental</b>      |                        |                                 |  |
| <b>Wheat Ridge</b> | <b>10% at 80% AMI</b>  | <b>\$58,811</b>                 | <b>\$588,110</b>   |
| Broomfield         | 20% at 60% AMI         | \$106,635                       | \$2,132,700  |
| Littleton          | 5% at 60% AMI          | \$269,708                       | \$1,348,540  |
| Longmont           | 12% at 50% AMI         | \$5.93/sq. ft                   | \$251,432  |
| <b>For-Sale</b>    |                        |                                 |  |
| <b>Wheat Ridge</b> | <b>10% at 100% AMI</b> | <b>\$97,827</b>                 | <b>\$293,481</b>   |
| Broomfield         | 10% at 80% AMI         | \$165,669                       | \$497,007  |
| Littleton          | 5% at 80% AMI          | \$269,708                       | \$809,124  |
| Longmont           | 12% at 80% AMI         | \$13.50/sq. ft.                 | \$604,800  |

## **DEVELOPMENT FEASIBILITY**

Feasibility analyses are designed to test the market viability of inclusionary requirements based on development proformas typically used in the real estate industry to help determine whether a project is financially feasible. Developers, investors, and lenders rely on several financial metrics to assess a project's viability, including return on cost (ROC), internal rate of return (IRR), among others. A proforma is typically comprised of:

1. Development budget (cost of construction and other costs),
2. Estimate of income as units are sold or rented; and
3. Estimate of project value based on project income at stabilization and the estimated value of the entire development at sale.

Ricker Cunningham tested the feasibility of several prototypical development models based on the requirement of 10% set-aside at 80% AMI for rental and 10% set-aside at 100% AMI for for-sale.

### **Rental Feasibility**

Figure 5 below shows the proforma development costs of three prototypical rental developments:

1. Apartments subject to the city charter cap, restricted to 21 dwelling units per acre. This model is based on a 2-acre site with 42 dwelling units.
2. Mid-rise apartments in city-charter exempt areas. This model is based on a 2-acre site with 60 units.
3. Five-story apartments, in city-charter exempt areas. This model is based on a 2-acre site with 100 units.

The feasibility analysis confirmed that developments at a higher density can absorb the cost of an IHZ program, however, lower-density developments cannot. The only development proposal that could absorb an IHZ program fee-in-lieu set at 10% at 80% AMI is the 5-story 100-unit project in a city-charter-exempted area, yielding a positive profit margin with a fee-in-lieu. The other rental development prototypes would not be able absorb an IHZ program, suggesting the need to reduce the IHZ fee-in-lieu based on size of the development or exempt development in city-charter cap areas.

Figure 5: Proforma Models for Rental apartments tested for an IHZ program

| Rental                           | Apartments at City Charter Cap | 3-story apartments (exempt) | 5-story apartments (exempt) |
|----------------------------------|--------------------------------|-----------------------------|-----------------------------|
| Site Size                        | 2                              | 2                           | 2                           |
| Number of Units                  | 42                             | 60                          | 100                         |
| Total Development Costs*         | \$17,391,582                   | \$23,381,748                | \$47,188,818                |
| Total Development Cost per Unit  | \$414,085                      | \$389,696                   | \$471,888                   |
| Estimated Project Value**        | \$16,447,358                   | \$23,496,226                | \$49,520,755                |
| Baseline Margins (no IHZ)        | (\$944,224)                    | \$114,478                   | \$2,331,937                 |
| IHZ Fee-in-lieu (10% at 80% AMI) | \$235,244                      | \$352,866                   | \$588,110                   |
| Project Margins/(Gap)            | (\$1,191,230)                  | (\$238,388)                 | \$1,743,827                 |

\* Total development cost includes property acquisition, site improvements, building construction, construction contingency (5%), soft costs (20% of hard costs), and a return on cost of 5.3%.

\*\* Estimated Project Value includes gross rental income, other income, 5% vacancy, and operating costs.

## For-Sale Feasibility

Figure 6 below shows the proforma models of three prototypical for-sale developments:

1. Medium-density townhomes at 15 dwelling units per acre. This model is based on a 2-acre site with 30 units and is the most typical townhome development type.
2. Townhomes subject to the city charter cap, restricted to 21 dwelling units per acre. This model is based on a 2-acre site with 42 units.
3. Condominiums at 30 dwelling units per acre in city exempted areas. This model is based on a 2-acre site with 60 units.

The results of the analysis show that a townhome development with at least 30 units could likely absorb the cost of the fee-on-lieu; however, a condominium building could not.

Figure 6: Proforma Models for For-Sale Townhomes and Condos

| For-Sale                          | Medium Density townhomes | Townhomes at City Charter Cap | For-Sale Condos |
|-----------------------------------|--------------------------|-------------------------------|-----------------|
| Site Size                         | 2                        | 2                             | 2               |
| Number of Units                   | 30                       | 42                            | 60              |
| Total Development Costs*          | \$13,751,976             | \$16,903,551                  | \$21,651,624    |
| Total Development Cost per Unit   | \$458,399                | \$402,466                     | \$360,860       |
| Net Sales Proceeds**              | \$14,263,000             | \$19,210,000                  | \$21,200,000    |
| Baseline Margins (no IHZ)         | \$511,024                | \$2,306,449                   | (\$451,624)     |
| IHZ Fee-in-lieu (10% at 100% AMI) | \$293,481                | \$410,873                     | \$586,962       |
| Project Margins/(Gap)             | \$217,543                | \$1,895,576                   | (\$1,038,586)   |

\* Total development cost includes property acquisition, site improvements, building construction, construction contingency (5%), soft costs (15% of hard costs).

\*\* Net Sales Proceeds includes gross sales less the cost of sales (7%) and estimated return (10%).

## INCENTIVES, EXEMPTIONS, AND ALTERNATIVES

It is common practice for inclusionary zoning programs to include development incentives, exemptions, and alternatives that help offset the costs of the affordability requirements:

- Incentives are tools that help offset the additional cost of inclusionary programs;
- Exemptions help charitable entities or housing authorities provide the affordable units needed for the community; and
- Alternatives provide other ways for developers to meet the affordable housing goals of the community.

The following options were recommended by Ricker Cunningham and further refined by staff based on the applicability.

### Incentives

A successful IHZ program would offer incentives to developers to help offset the cost of additional affordability requirements. Based on the feasibility analysis, Ricker Cunningham recommends leveraging the following incentives:

- **Building permit fee or use tax reductions or rebates** – these typically range from \$5,000 to \$15,000 per affordable unit and are often capped at a certain threshold. These fees are often extended only to the affordable units within a development. A \$5,000 per affordable unit fee reduction in association with a 10% affordability set-aside would effectively lower the per-unit cost of the entire development by about \$500 (per total unit). However, our building permit fees cover our CAA costs and cannot be reduced. Therefore, a building permit fee reduction would not be applicable for Wheat Ridge.
- **Density bonus or charter cap exemptions** – A common incentive offered in IHZ programs is a density bonus, which allows developers to build more units than typically permitted. This helps offset the reduced revenue from including affordable units. However, this incentive isn't applicable in much of Wheat Ridge due to the citywide charter cap on height and density. While some of the city's mixed-use districts are exempt from this cap, most of the residential projects that would be subject to this ordinance are not. This means that developers in Wheat Ridge wouldn't be able to utilize a density bonus to mitigate the costs of providing affordable housing.
- **Expedited Review** – Expediting the development review process helps to speed up the entitlement process. This incentive cannot be quantified in the same way as other incentives but is still favorable among developers. By 2026, the city will need to adopt an expedited review process before being eligible to commit to the next round for Proposition 123. This incentive would only apply to projects with at least 50% affordable housing units rented at 60% AMI or less and for-sale units at 100% AMI or less.
- **Urban Renewal TIF financing** – The city currently offers Tax Increment Financing (TIF) to developers in Urban Renewal areas in exchange for public benefit. The city will typically ask for affordable units or a percentage of the TIF to be returned to the city in the Housing Fund. However, there are only a certain number of URA areas that exist within the city so the number of projects that would receive this incentive is limited.

## Exemptions

Most inclusionary programs allow exemptions or alternatives to adjust the program requirements on a case-by-case basis. Exemptions help provide flexibility and ensure the policy is applied fairly and effectively without burdening certain types of development.

Ricker Cunningham recommends the following exemptions to the IHZ program:



- Developments with 100% affordable, deed-restricted units funded by federal, state, or local government funding sources
- Developments of a charitable entity, trust, housing authority or eligible tax exemption providing at least 50% affordable housing

## PROGRAMMATIC RECOMMENDATIONS

The consultants recommend the following program structure:

*Figure 7: IHZ Program Structure*

| IHZ Program Structure |  |
|-----------------------|--|
| <b>Applicability</b>  | Mandatory for all new development projects with 10 or more units   |
| <b>Set-Aside</b>      | Rental: 10% of units affordable at 80% AMI<br>For-Sale: 10% of units affordable at 100% AMI  |
| <b>Duration</b>       | 30 years (deed-restricted)   |
| <b>Alternatives</b>   | Fee-in-lieu:<br>Rental: \$58,811 per unit<br>For-Sale: \$97,827 per unit   |
| <b>Incentives</b>     | <ul style="list-style-type: none"> <li>• Expedited Review</li> <li>• URA TIF Financing</li> </ul>  |
| <b>Exemptions</b>     | <ul style="list-style-type: none"> <li>• Developments with 100% affordable units, deed-restrictive units</li> <li>• Development with 50% affordable units, owned by a charitable trust, housing authority, or eligible tax exemption.</li> </ul> |

### IHZ Fee generation

Ricker Cunningham conducted a Development Capacity Analysis based on staff input of projects currently in the development process, proposed, or anticipated. Based on a mandatory IHZ program with a set-aside of 10% at 80% AMI for rental and 10% at 100% AMI for-sale, the ordinance could generate 177 affordable rental units and 20 for-sale rental units or generate an estimated \$12 million in funds through fees that can be used towards the Housing Fund over the next ten years.