To access the Agenda and Backup Materials electronically, go to www.gjcity.org

City of Grand Junction Colorado

CITY COUNCIL AGENDA
CITY HALL AUDITORIUM, 250 NORTH 5TH STREET

WEDNESDAY, JULY 15, 2009, 7:00 P.M.

Call to Order Pledge of Allegiance

Certificate of Appointment

To the Downtown Development Authority/Downtown Grand Junction Business Improvement District

Presentation

Parks and Recreation Director Rob Schoeber to show a short video and talk about the voting process to promote the USTA Tennis Award

Citizen Comments

City Manager's Report

*** * * CONSENT CALENDAR * * ***

THERE ARE NO ITEMS FOR THE CONSENT CALENDAR

*** * * ITEMS NEEDING INDIVIDUAL CONSIDERATION * * ***

**** Indicates New, Moved, or Changed Item*
® Requires Roll Call Vote

REVISED

1. **Grand Valley Housing Strategy** ***Attach 1***

   The Grand Valley Housing Strategy is the product of a public-private initiative to create long-term, sustainable solutions for housing challenges in the Grand Valley. The Strategy addresses the full spectrum of housing needs in the Valley over the next 10 years.

   Action: Authorize Staff to Bring Back a Resolution to Appoint a Valley-Wide Task Force to Implement the Recommendations of the Housing Strategy

   Staff presentation: Jody Kole, Grand Junction Housing Authority Director
   Steve Kesler, Steering Committee Member

2. **Non-Scheduled Citizens & Visitors**

3. **Other Business**

4. **Adjournment**

Attach 1
Grand Valley Housing Strategy

CITY OF GRAND JUNCTION

CITY COUNCIL AGENDA				
Subject	Grand Valley Housing Strategy			
File #				
Meeting Day, Date	Wednesday, July 15, 2009			
Placement on the Agenda	**Consent**		**Individual**	X
Date Prepared	July 8, 2009			
Author Name & Title	Kathy Portner, Neighborhood Services Manager Jody Kole, Grand Junction Housing Authority Director			
Presenter Name & Title	Jody Kole, Grand Junction Housing Authority Director Steve Kesler, Steering Committee member			

Summary: The Grand Valley Housing Strategy is the product of a public-private initiative to create long-term, sustainable solutions for housing challenges in the Grand Valley. The Strategy addresses the full spectrum of housing needs in the Valley over the next 10 years.

Action Requested/Recommendation: Authorize staff to bring back a Resolution to appoint a valley-wide task force to implement the recommendations of the Housing Strategy.

Attachments: Final Housing Strategy with Cover
Final Housing Executive Summary with Cover

Background Information: The Grand Valley Housing Strategy is the product of a public-private initiative to create long-term, sustainable solutions for housing challenges in the Grand Valley. Grand Valley jurisdictions, in partnership with private and nonprofit entities, are seeking to address barriers to housing investment, while also capitalizing on market opportunities and attending to product voids through development of a comprehensive housing strategy.

The purpose of the *Grand Valley Housing Strategy i*s <u>not</u> to provide solutions for the peaks and valleys in the region's housing cycle, but rather to strengthen its base and, in so doing, make it better able to weather fluctuations that are inevitable in the Grand Valley. To this end, it has been designed to provide a framework for monitoring market conditions, while also providing appropriate responses and recommendations, and keeping all of the public and private partners involved in the process.

The objectives of the *Strategy* are to:

- Document those housing issues that present the most significant challenge for the respective participating communities;

- Document and monitor economic and market conditions;

- Understand the spectrum of needs and desires;
- Determine why the market can't or won't respond; and
- Develop solutions to barriers and strategies for advocates to work together.

The project's end goals are:

- To build community awareness;
- To enhance the efficiency of the delivery of services (time is money);
- To increase certainty and predictability for the development community;
- To provide incentives for private investment in key areas;
- To create a platform for trusted partnerships; and
- To build a sustainable framework from which to focus on the Grand Valley's range of housing needs, to monitor the housing market, to track progress toward meeting the housing needs, and to make strategic adjustments in response to changing conditions.

Recommendations

Improve the Process

1. Streamline Entitlement Process; Cultivate and Promote a "Pro-Business" Philosophy
2. Encourage Density Bonus Programs -- develop, improve and promote
3. Complete Cost-Benefit Analysis; Analyze Jurisdictions' Codes for Provisions Which Impose Costs that Exceed the Public benefit
4. Coordinate Planning Efforts and Policy Documents; Agree on Growth Assumptions; Monitor Progress in Meeting Demand
5. Develop Turn-Key Plans for Private Development to Speed Approvals

Community Outreach

6. Develop Design Standards for Higher Density Mixed-Use Development, via a public process
7. Quantify the Community Benefits of Increased Density vs. Costs associated with "Doing Nothing", i.e., increased costs of sprawl

8. Survey Housing Preferences to Determine Receptivity to Product Variety; Hold Workshops to Address Concerns Related to Higher Density Development

Maximize Public and Non-profit Resources to Leverage Private Investment

9. Research and Develop Creative Incentive Programs for Affordable Housing Development, including -- rebate of sales taxes, infrastructure investment, reduced development fees, as well as other innovative solutions (may be based on relative affordability)

10. Acquire Land in Strategic Locations and Ready it for Development -- the use of existing non-profit entities is strongly encouraged

11. Work with Local and Regional Lenders to Fund Loan Pools

12. Create an Equity-Sharing Program for Low- and Moderate-Income Home Ownership

13. Establish and Capitalize a Local Housing Trust Fund – with a dedicated revenue source to leverage private investment

Focus, Monitor and Adjust Over Time

14. Appoint a Valley-Wide Task Force to Implement the Recommendations -- charge it with continually monitoring market conditions and sharing them with members of the delivery system and community

Grand Valley Housing Strategy

Grand Valley, Colorado

Final Report

Prepared by:

LELAND CONSULTING GROUP

*** *In*
® *R*

In Association With:

RRC Associates, Inc. – Chris Cares
JCRC – James Coil

30 April 2009

The existing housing market in the Grand Valley may be active, but it is not producing the desired results and benefits that can be the product of a deliberate and unified regional housing strategy.

The Client Team

Following is a list of the funding partners to the *Grand Valley Housing Strategy*:

Town of Palisade, Colorado
City of Fruita, Colorado
City of Grand Junction, Colorado
Grand Junction Housing Authority
Grand Junction Area Chamber of Commerce
Mesa County, Colorado
Colorado Housing and Finance Authority
Grand Junction Economic Partnership
Housing Resources of Western Colorado
Mesa State College
Bank of Colorado
Zeck Homes
Ted Munkres
Grace Homes
Faith Foundation
Bray Real Estate
Ciavonne & Associates

The Steering Committee

Following is a list of individuals who participated on the Steering Committee for the *Grand Valley Housing Strategy*:

Tom Bell, City Market
Kevin Bray, Bray Real Estate
Rebekah Zeck, Zeck Homes
Darin Carei, Grace Homes
Chris Launer, Bank of Colorado
Steve Kesler, Association of Managed Growth & Development
Duncan McArthur, Housing & Building Assoc of NW CO
Jon Peacock, Mesa County
Kimberly Bullen, Mesa County
Rich Englehart, City of Grand Junction
Kathy Portner, City of Grand Junction
Tim Sarmo, Town of Palisade
Clint Kinney, City of Fruita
Sue Tuffin, Mesa County Workforce Center
Scott Aker, CHFA
Jody Kole, Grand Junction Housing Authority
Dan Whalen, Housing Resources of Western Colorado
Ann Driggers, Grand Junction Economic Partnership
Diane Schwenke, Grand Junction Area Chamber of Commerce

"Like labor markets, housing markets are regional in nature. While most families live in the same community in which they work, they do not always live in the same city or even the same county as their workplaces. For this reason, the housing policies that one community adopts may affect other communities in the same metropolitan area. For example, when one community restricts new development or sets up conditions that effectively preclude the development of affordable homes, other communities end up picking up the slack. Since the housing policies of communities are rarely coordinated with one another, the end result is often sprawl: affordable homes get built in the areas of least resistance – often on the fringes of the community – and traffic increases as these families travel long distances to and from work." HousingPolicy.org

Crystal Brook Townhomes, Grand Junction, CO

Preface

The *Grand Valley Housing Strategy* is the product of a public-private initiative to create long-term, sustainable solutions for housing challenges in the Grand Valley. Grand Valley jurisdictions, in partnership with private and nonprofit entities, are seeking to address barriers to housing investment, while also capitalizing on market opportunities and attending to product voids through development of a comprehensive housing strategy.

Purpose and Objectives

The purpose of the *Grand Valley Housing Strategy* is not to provide solutions for the peaks and valleys in the region's housing cycle, but rather to strengthen its base and, in so doing, make it better able to weather fluctuations that are inevitable in the Grand Valley. To this end, it has been designed to provide a framework for monitoring market conditions, while also providing appropriate responses and recommendations, and keeping all of the partners (public and private) involved in the process.

Meadowview, Longmont, CO

The objectives of the *Strategy* are to:

- Detail those housing issues that present the most significant challenge for the respective participating communities (see Preface);
- Document and monitor economic and market conditions;
- Understand the spectrum of needs and desires;
- Determine why the market can't or won't respond; and
- Develop solutions to barriers and strategies for advocates to work together.

The project's end goals are:

- To build community awareness;
- To enhance the efficiency of the delivery of services (time is money);
- To increase certainty and predictability for the development community;
- To provide incentives for private investment in key areas;
- To create a platform for trusted partnerships; and
- To build a sustainable framework from which to focus on the Grand Valley's range of housing needs, to monitor the housing market, to track progress toward meeting the housing needs, and to make strategic adjustments in response to changing conditions.

Grand Valley Housing Issues

During the strategy process, stakeholder and leadership input, together with market and financial analyses, brought to the forefront several key issues that require innovative solutions and policy reform. Among those issues identified by members of the housing delivery system including property owners, developers (for profit and non-profit), real estate brokers, lenders, institutional and community leaders, and others were:

- Fluctuations in growth rates;
- Private sector reluctance to invest and reinvest in Grand Valley cities and towns;
- Limited resources necessary to fill financial gaps associated with the construction of select housing product types;
- Few locations, appropriately-zoned, that can accommodate mixed-use developments and / or higher densities;
- Lack of program offerings for existing home owners desiring to finance improvements to owner-occupied units;
- Community resistance to density;
- Limited code enforcement;
- Desire for enhanced environmental sustainability;
- Concentrations of mobile home parks;
- Homelessness; and
- Migrant housing.

Given the depth and complexity of several of these issues, not all of them have been addressed in this housing strategy. Rather, key issues, especially those that have been determined to most significantly impact the ability of the region to address the diversity of need in the Grand Valley, are considered and strategies advanced in the list of *Recommendations* presented below. A schedule for the actions and the entities involved in addressing them is presented in the *Actions* section of the full report.

Recommendations

Improve the Process

1. Streamline Entitlement Process; Cultivate and Promote a "Pro-Business" Philosophy

2. Encourage Density Bonus Programs -- develop, improve and promote
3. Complete Cost-Benefit Analysis; Analyze Jurisdictions' Codes for Provisions Which Impose Costs that Exceed the Public Benefit
4. Coordinate Planning Efforts and Policy Documents; Agree on Growth Assumptions; Monitor Progress in Meeting Demand
5. Develop Turn-Key Plans for Private Development to Speed Approvals

Community Outreach

6. Develop Design Standards for Higher Density Mixed-Use Development, via a public input process
7. Quantify the Community Benefits of Increased Density vs. Costs Associated with "Doing Nothing", i.e., increased costs of sprawl
8. Survey Housing Preferences to Determine Receptivity to Product Variety; Hold Workshops to Address Concerns Related to Higher Density Development

Maximize Public and Non-Profit Resources to Leverage Private Investment

9. Research and Develop Creative Incentive Programs for Affordable Housing Development, including -- rebate of sales taxes, infrastructure investment, reduced development fees, as well as other innovative solutions (may be based on relative affordability)
10. Acquire Land in Strategic Locations and Ready it for Development -- the use of existing non-profit entities is strongly encouraged
11. Work with Local and Regional Lenders to Fund Loan Pools
12. Create an Equity-Sharing Program for Low- and Moderate-Income Home Ownership

13. Establish and Capitalize a Local Housing Trust Fund – with a dedicated revenue source to leverage private investment

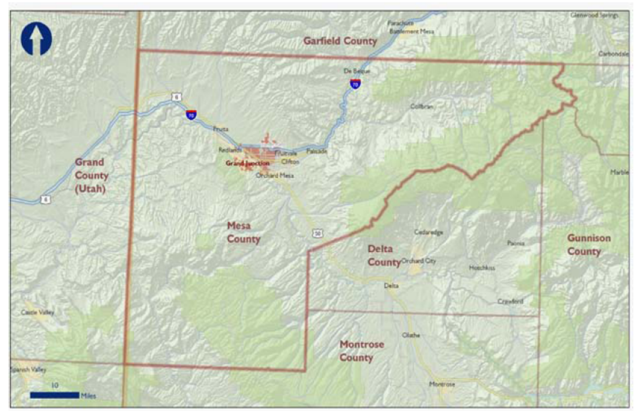
Focus, Monitor and Adjust Over Time

14. Appoint a Valley-Wide Task Force to Implement the Recommendations -- charge it with continually monitoring market conditions and sharing them with members of the delivery system and community

Environment

The Grand Valley is located along the Colorado River in Mesa County in Western Colorado. The Valley includes the Cities of Grand Junction and Fruita, the Town of Palisade together with unincorporated areas of Mesa County, including Orchard Mesa, Clifton and Fruitvale. The Valley is the most densely populated area on the Colorado Western Slope. Note: The Planning Area that is the subject of this *Grand Valley Housing Strategy* includes all of these communities and geographies.

The economy of the Grand Valley is extremely diverse with oil and gas extraction, and mining and construction having re-emerged as strong industry sectors in recent years. The area's manufacturing base ranges from electronics to semiconductor equipment, advanced composites to bicycle parts, as well as traditional and base manufacturing. Strong health and medical services, construction, education, business, agri-business and professional services, and strong retail provide resources to neighboring areas in Colorado and Utah. Business services include cutsomer service centers in



telecommunications and the electronics industries. Finally, tourism, though not easily definable as a separate economic sector, is also an important industry to the area.

In total, the Mesa County employment base increased by over 12,000 jobs during the period 2000 to 2007, at annual rates of just under 2 percent to a high of almost 6 percent in 2006. Although state-wide and national job growth slowed in 2008, Mesa County's growth remained steady.

Foothills, Boulder, CO

Market and Economic Conditions

In 2006 and 2007, many described the Grand Valley as immersed in a housing crisis. Others referred to conditions as the "perfect housing storm" – the convergence of high land costs and fees and extended entitlement periods, with fluctuating material costs and limited purchasing and rental capacity. Using the following universally-accepted set of indicators, perhaps these characterizations were true.

Indicators of a Housing Crisis

- Historically high mortgage failure rates
- Tight credit markets (locally and regionally)
- Growth in employment and population
- Residents doubling and tripling up in the same unit
- Increases in land prices and building materials
- Rising disparity between wages and home prices
- Lack of production of attainable housing (rental and ownership)
- Households that cannot afford to buy or rent shelter without spending more than 30 percent of their incomes

At any given moment during the past 12+ months, most, if not all, of these conditions were present in the Grand Valley. Many of them are still present today. Regardless, some say the "crisis" has passed. Others say it never existed. Still others, those intimately involved in the delivery of housing, believe that the market is unable to provide and sustain its residents with key housing product types. To quote a member of the *Grand Valley Housing Strategy* Steering Committee, "When the market was supposedly operating at equilibrium, it wasn't as if local communities were receiving and accepting applications for anything other than market-rate single family detached units."

Because the market continues to exhibit high levels of volatility, adoption of a long-term housing strategy for the Grand Valley will be essential. The dramatic price increases seen in recent years have slowed significantly, but housing is not yet affordable to many Grand Valley residents. Among the indicators considered in the context of this effort are those related to: job levels, industry growth, home prices, and housing attainability. Some of these are summarized in the discussion below and all are presented in greater detail in the *Context* section of the report binder.

- The largest job gains in the Grand Valley in recent years came in mining and construction, adding 5,600 jobs since 2,000, and representing 37 percent of the total increase in nonfarm jobs from 2000 to 2008.
- Job growth continued in 2008, despite slowing at the national level. The local economy added a total of 2,800 nonfarm jobs during the past year, at a growth rate of 4.5 percent.
- Despite the fact that Garfield County reported the highest levels of drilling activity, the majority of residents working in this industry in 2008 lived in Mesa County. (65 percent of mining workers in the Piceance Basin report their residence is Mesa County.)
- New construction building permit activity peaked in 2003 at almost 1,600 units. Activity remained high through 2006 but, until 2007, when it slowed to about 1,400 units. Permit activity continued to decline in 2008, down 43 percent from 2007.

- From 2004 through 2007, median sale price increases in the double digits was the norm. In 2008, the median price was up 2.9% from one year earlier, representing a slowdown in price gains, but providing a stark contrast to the 10 percent decline at the national level.
- The median single family sales price in the Planning Area was up to $224,900 in the first quarter of 2009; almost double its 2001 level and 37 percent higher than the national median of $164,600.
- Residential sales activity peaked in 2006 at just over 4,000 units, but was down 8% in 2007. This decline accelerated to 23 percent in 2008. Fewer than 2,900 homes were sold in the past year.
- The Planning Area average price was well below other Front Range areas in 2001, but by 2008, it was moderately higher than Fort Collins and Denver, and above the average prices in Greeley and Colorado Springs. All of these Front Range areas have median family incomes 16 percent to 36 percent higher than Grand Junction.
- The Planning Area had a relatively more affordable housing market than both the U.S. and Denver in the early part of the current decade. Since then, the Planning Area single family home affordability index[1] dropped to below 100. More dramatic price declines will push the Denver and U.S. affordability indices to their highest levels in the past 8 years, while the Grand Valley's index will remain close to its low point.
- Rental vacancy rates in the Planning Area were at 3.1 percent in the 4th quarter of 2008. This is the first time they have been above 3 percent since the third quarter of 2005.
- New construction of apartment units has been virtually dormant with only 237 attainable units delivered in the last 10 years. The largest new apartment projects in Mesa County were Low Income Housing Tax Credit developments.
- As of the first quarter of 2009, over 1,300 families were on waiting lists with the Grand Junction Housing Authority (GJHA), most with incomes under $10,000 and only able to afford rents of $200 to $300 per month.
- The American Community Survey indicates that between 2005-2007, about 43% of renters in Mesa County paid more than 30 percent of their household incomes for gross rent.

[1] A measure of relative affordability derived from comparing median home price to median income.

Among households with incomes less than $35,000, 65% paid more than 30 percent of income for rent.

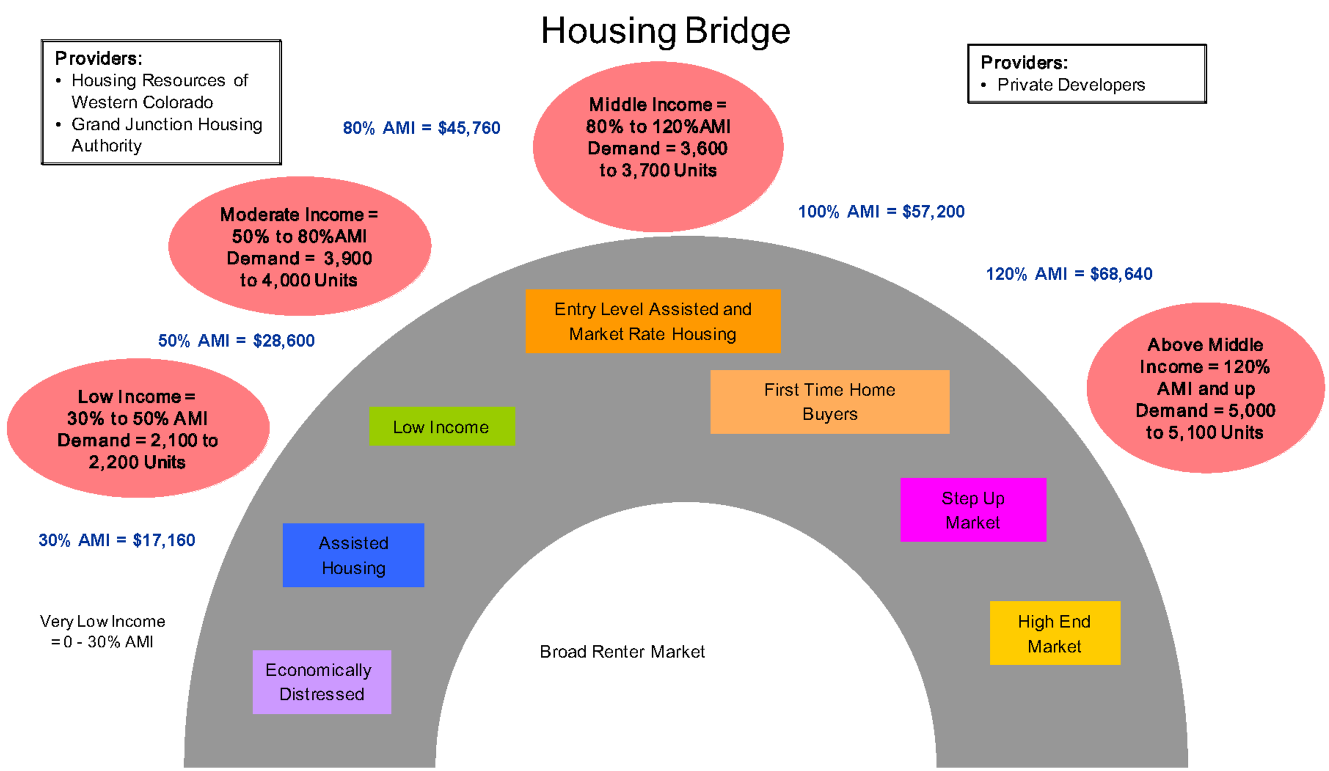
- A little over half of renters in Mesa County are not eligible for affordable housing programs, but many still fall short in their ability to pay market rents, or the level of rents which would support new multifamily construction. At 80 percent of AMI (Area Median Income), households can only afford rents below $800 per month.

The illustration on the following page, the "housing bridge", shows what housing products are required at different income levels, along with the number of housing units needed by supportable price point (over the next decade in the Grand Valley)and entity most likely to deliver it to the market.

What are the Region's Needs?

Demand for new residential units is primarily a factor of the growth in income-qualified households within a service or planning area. For the purpose of the *Grand Valley Housing Strategy*, projected household growth was analyzed along with historical patterns of single- and multi-family development to arrive at an estimated demand for new housing in the Planning Area of approximately 16,700 units over the next 10 years, or approximately 1,670 units annually. Note: Growth assumptions are consistent with those used in the Grand Junction Comprehensive Plan Update 2009.

Approximately 4,400 units (or nearly 26%) of the Planning Area's 10-year demand could be in the form of rental units, or approximately 440 units annually. Attached ownership housing (condominiums and townhomes) appears to be underrepresented in the Valley compared to other communities of its size. Of the 12,310 units of ownership demand, approximately 20% could be delivered in the form of an attached product (assuming policy and regulatory support and developer capacity) based on demographic and consumer preferences. This translates into demand for approximately 2,480 attached ownership housing units in the Planning Area over the next 10 years, or approximately 250 units annually.



Source: Leland Consulting Group and McCormick and Associates, Inc.

More detail regarding demand by price point and housing product type are summarized below:

- At an Area Median Income (AMI) of $57,200, households at this level, assuming fairly conservative assumptions of 5% interest and a 30-year mortgage, could afford a home priced between approximately $175K and $225K.
- Fifty-one percent of all demand for attached ownership units will be for units priced between $150K and $250K. 45% of all demand for detached ownership units will be for products in this price range.
- As expressed above, assuming 26% of Planning Area housing units will be rentals, 29% or 1,280 will need to be priced below $375 per month. Demand for 1,280 units, combined with existing demand for 1,300 units (number of families on waiting list with GJHA) suggests a significant deficit for the foreseeable future among units at this price point.
- During the fourth quarter of 2008, the average Mesa County rent was approximately $666.

2018 Rental Unit Demand by Rent Range

Annual Income Range			Monthly Rent Range			Units
Less than		$15,000	Less Than		$375	1,280
$15,000	to	$24,999	$375	to	$624	920
$25,000	to	$34,999	$625	to	$874	700
$35,000	to	$49,999	$875	to	$999	670
$50,000	to	$74,999	$1,000	and over		530
$75,000	to	$99,999	$1,000	and over		180
$100,000	to	$149,999	$1,000	and over		80
$150,000	and over		$1,000	and over		40
			Total Rental Units			4,400

2018 Owner Unit Demand by Price Range

Annual Income Range			Sales Price Range			Townhouse/ Condo Units	Single Family Detached Units
Less than		$15,000	Less than		$75,000	70	150
$15,000	to	$24,999	$75,000	to	$99,999	280	640
$25,000	to	$34,999	$100,000	to	$149,999	410	1,230
$35,000	to	$49,999	$150,000	to	$199,999	670	2,000
$50,000	to	$74,999	$200,000	to	$249,999	600	2,380
$75,000	to	$99,999	$250,000	to	$349,999	250	1,410
$100,000	to	$149,999	$350,000	to	$499,999	140	1,280
$150,000	and over		$500,000	and over		60	740
		Total Owner Units by Type				2,480	9,830

- Over the next 10 years, there will be demand for 2,200 units, or 50% of all rental demand, priced below $625.
- Only 237 attainable units have been delivered to the market in the last 10 years.
- At 80% of AMI, household can only afford rents below $800 per month.

- Provision of rental housing to households below Area Median Income (AMI) is primarily left to advocacy agencies including the Grand Junction Housing Authority, Housing Resources of Western Colorado, and other non-profit developers.
- More than 1,300 units in the Planning Area are eligible for rehabilitation, but funding for this improvement activity is extremely limited. [2]
- Increased demand for rental units, as well as townhouse / condo units will require higher densities than are now typically built / approved in the market. Assuming an average density of 16 to 18 units per acre for rental units and 12 to 14 units per acre for attached ownership units, the Planning Area will require the following acreages with appropriate zoning designations.

[2] Using county assessor GIS data, parcels were screened as rehab candidates if they were one of several multi-family account types constructed prior to 1985. A comprehensive field survey of each of several aggregated parcels was conducted in Oct 2008 to determine property type, construction material, overall condition, estimated occupancy, and notes on surrounding properties.

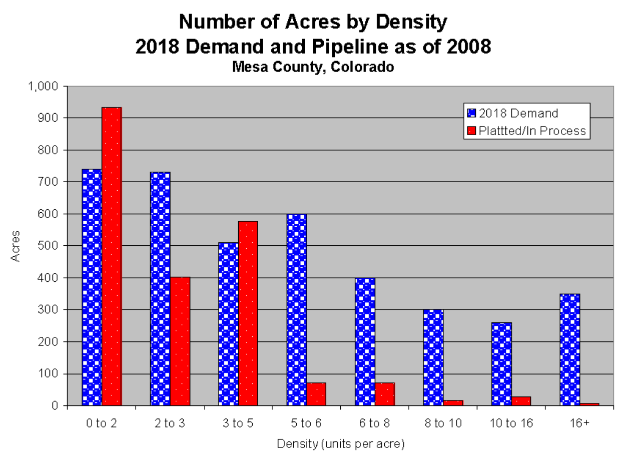
Acreages Required to Accommodate Growth by Product Type

	Density (units / acre)	Acres
Single Family	1 to 10	2,420
Townhome / Condo	12 to 14	190
Rental	16 to 18	260
		2,870

Source: RRC, James Coil and Leland Consulting Group.

As evidenced by the facts presented above, the Grand Valley will continue to face a growing shortage of quality housing across a spectrum of price points without public intervention and private sector participation. Of particular concern is the apparent inability of the "delivery system"[3] to address an acute shortage of one of the market's fastest growing segments – moderate income to working-wage households. Working wage or workforce households often include teachers, police / fire men and women, nurses, retail workers and public employees and frequently report incomes at 80% to 120% of AMI.

[3] Any individual or entity involved in the delivery of products to the market, including lenders, developers, policy makers, regulators, etc.



Why the Shortage?

Experience has proven that when market opportunities exist (as borne out by the demand analysis presented above), yet development doesn't happen, or it doesn't happen in a meaningful and responsive way, barriers exist. Low rental vacancy rates, yet declining permit activity alone suggests that barriers are hindering the free market from being able to address demand in a strategic and equitable way. Specific explanations for why the market has not responded to demand came through input gained from representatives of the community during a series of small group meetings held over several days in October 2008. Meeting participants included lenders, developers, institutional leaders, property owners / property managers, business owners, and public sector staff who were selected for the breadth of their experience and familiarity with the community. Broad categories of barriers to investment and reinvestment (expressed as both perceptions and reality) in the housing market, identified by these groups, included those listed below. In order to establish a context for these responses, the list is preceded by a list of "delivery system" needs.

Delivery System Needs

- Lenders (public and private) – minimal exposure (risk), reduced uncertainty
- Developers – political will, predictable entitlement process, reasonable return on private investment
- Public sector – sustainability, quality of life, reasonable return on public investment
- Property owners – appropriate zoning

- Property managers – available capital (property improvements), market rate rent structure (non-affordable units)
- Brokers – fees for transactions
- Consumers – choice (location and product type)
- Home owner associations – appreciation, compatibility
- Retailers – accessibility and visibility for customers
- Employers – proximity to employees, diversity and depth in labor force
- Institutions – revenue, users, partners

The first two quantifiable barriers are addressed following the list.

- Availability of multi-family zoned land (see discussion below under Limited Availability of Land);
- Disparities between the cost of construction (including land costs) and value of development (see discussion below under Financial Feasibility Challenges);

- Escalating government and special district fees and extended application processing times;
- Uncertainty around the rezoning process;
- Limited availability of private equity;
- Inexperience among local builders in delivering a greater range of product types;
- Perceived competition among for-profit and non-profit builders;
- Resistance to higher density development;
- Inconsistent interpretation of building codes and the costly delays this creates;
- Out-dated code provisions and inappropriate application (based on product type and project location);
- Size of the market that effectively limits competition ("small builder delivery system");
- Expense of retooling for new products among builders familiar with a specific product type; and
- Lack of experience among lenders and appraisers associated with mixed-use developments.

A more detailed discussion about impediments to investment and the input of stakeholders in the process is presented in the *Barriers* section of the report binder.

Limited Availability of Land at Different Densities

- 16,700 new units by 2018 will require 2,870 acres
- More than 70% of this acreage (2,100 acres with 5,100 lots) is already in the municipal or county development pipeline, however:
  - Over 90 percent of the acreage in the pipeline has a density of 5 units per acre or less.
  - The pipeline already contains more than enough product at 0 to 2 and 3 to 5 units per acre.
  - Land for developments at 5 or more units per acre is well short of demand.
  - 6,000 to 7,000 lots / units are in various stages of processing – most in developments of less than 5 units to the acre.

Financial Feasibility Challenges

In order to understand the relationship of product cost to value, the Consultant Team prepared a series of development proformas (from a private developer perspective) that tested a range of development assumptions. Additional analyses were completed to quantify the affordability gap for households across several income segments. Significant findings from this work are summarized below:

Observations

- A typical lot cost of $75,000 to $80,000, at a density of 3 units per acre, creates an $80K gap between the cost of development and a sale price of $250,000.
- At year-end 2008 land and construction costs, there is a 40 percent gap between the costs of delivering apartments priced at rents of $1.10 per square foot. At current average rents of $0.85 per square foot, the gap is significantly higher than this.
- At current region-wide Area Median Income (AMI) of $57,200, those "middle-income" households at 80%, 100% and 120% of AMI could afford housing products priced between $185,000 and $280,000.
- It is currently prohibitive to build housing products at these price points, given prevailing land and construction costs, and permitting fees.

- Among the market-rate scenarios tested here, economic gaps ranged from 24% to 43%.
- At these levels, for the housing price points shown herein, some form of public-private "gap-filling" intervention will be essential.
- For the most part, economic gaps could be filled with a combination of measures including:

  - Increased Density
  - Streamlined Development Approvals
  - Land Writedown
  - Site Improvements Contribution
  - Improvement District
  - Permit Fee Reduction Deferral
  - Reduction in Builder/Developer Profit
  - Lower-Cost Financing

Development Economic Components:

- Cost of Land
- Cost of Infrastructure
- Development Fees
- Building Construction Costs
- Lot / Home Sales
- Profit

GRAND VALLEY HOUSING STRATEGY
ECONOMICS OF HOUSING DEVELOPMENT
APRIL 2009

Target Home Price	% Of Area Median Income		
	80%	100%	120%
Annual Household Income	$45,750	$57,200	$68,650
% of Income for Housing	30%	30%	30%
Annual Income Available for Housing	$13,725	$17,160	$20,595
Supportable Monthly Payment (PITI)	$1,144	$1,430	$1,716
Less Mthly Taxes and Insurance (TI)	$97	$122	$147
Supportable Monthly Payment (PI)	$1,046	$1,308	$1,569
Supportable Home Price*	**$185,000**	**$235,000**	**$280,000**
** Assumes 5% downpayment; 6% interest rate; 30-year amortization.*			
Home Cost			
Land (Finished Lot)	$80,000	$80,000	$80,000
Building Construction**	$157,500	$210,000	$262,500
Permits/Fees	$14,000	$14,000	$14,000
Builder Profit (8%)	$20,120	$24,320	$28,520
Total Home Cost	**$271,620**	**$328,320**	**$385,020**
*** Assumes 1,500 to 2,500 square feet.*			
Affordability "Gap"	*$86,620*	*$93,320*	*$105,020*

In essence … housing affordability decreases as:

- Density decreases
- Housing demand increases
- Affordable housing supply decreases
- Land and building costs increase
- Cost of capital increases
- Financing resources decrease
- Regulatory and political barriers increase
- Wages decrease or remain low relative to cost of living

Belle Creek, Commerce City, CO

Conventional Wisdom

Two prescriptive solutions to facilitate greater production and access to housing are to: 1) provide the "delivery system" with resources (regulatory, policy, financial, etc.) to address financial "gaps"; and, 2) raise the incomes of households.

Initiatives used in the context of these solutions include:

- State and local ordinances that mandate a percentage or number of attainable units as part of new development projects (inclusionary zoning);
- Moratoriums on the development products at select price points;
- Development of manufactured and other tract housing projects, typically located on cheaper land; and
- Mandatory employer-provided housing assistance programs.

The result of limiting oneself to these kinds of efforts can be to effectively "bottom-load" the market with affordable housing rather than address demand at all price points. A comprehensive housing strategy seeks to align demand with supply, effectively allowing for greater movement within the market while also responding to fluctuations in market conditions over the near- and long-term.

Housing Strategy Goals

The *Grand Valley Housing Strategy* recommends that a sustained approach for the Grand Valley must address projects, programs and policies that serve to advance the following goals:

- Define the delivery system and "needs";
- Reduce costs (land and building);
- Remove barriers to investment;
- Minimize risk;
- Ensure greater certainty;
- Educate the citizenry;
- Promote collaborative solutions; and
- Constantly monitor market conditions and the effect of the above actions.

... based on an understanding of the following housing dynamics...

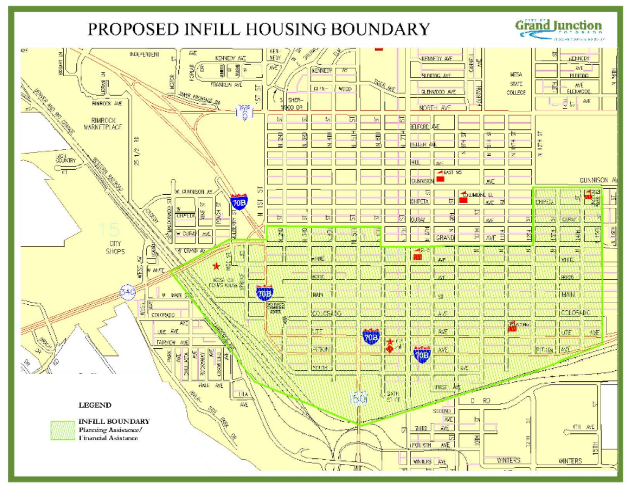
- Without intervention housing markets are supply-driven, rather than demand-driven, meaning suppliers are limited by experience and resources, regardless of market support.
- The for-profit market tends to supply housing products based on return, rather than community benefit.
- Housing prices and rents become a function of land prices, building costs, and costs of capital – rather than need.
- For-sale market rate attached and detached ownership units, and rental units are primarily the responsibility of for-profit developers.
- Resources that can fill financial gaps for non-profit developers include regulatory relief (streamlined entitlement process), fee deferrals, land cost reductions, etc.
- Resources that can fill financial gaps for for-profit developers include the same as those for non-profit developers, with the addition of a greater variety of financial incentives.

Each of the *Housing Strategy* goals identified above is addressed below through supporting recommended actions. Collectively, the actions speak to the housing issues identified by the participating jurisdictions at the beginning of this report.

Conclusion

Housing strategies are found in communities regardless of size or geography. The vast majority of these communities have put in place a comprehensive approach to the delivery of housing in response to either a rapid decline or increase in housing values. The best practices research conducted in the context of this effort showed that the most effective housing strategies are visionary - articulating the community's (region's) vision of housing and mission for a policy framework – explaining what it is and what it is not. They express measurable and achievable goals - specific in numbers, target income populations, and dates for accomplishment of specific actions (see Action section of binder). Their end-goal is implementation - outlining revisions and / or promoting adoption of ordinances and programs that accomplish the goals. (i.e., zoning and subdivision rules, building codes and incentive programs). They - formalize the "implementation process" - for collaboration between non-profit, governmental and for-profit marketplace and outline actions that appropriately direct housing production to desired geographies.

Recommendations are market-based - developed from an understanding of the local housing market -- supply, demand



and barriers to investment. And, outcomes are systemic - supporting every aspect of the delivery system - regulatory, financial, market, physical and legal.

The *Grand Valley Housing Strategy* includes all of these elements. However, successful implementation will be dependent not on the existence of this document, but rather on committed leadership from the public and private sectors. Without trust and participation from multiple interests, the *Strategy* will soon be obsolete. It was collectively affirmed during the *Strategy* process that, in order to move forward with mutual solutions, there needs to be an understanding of the challenges and a willingness to share in the risk of delivering certain housing products to the market.

Recognizing that successful implementation of the recommendations presented herein will require a cultural "mind shift" among the public and private sectors, the need for community and delivery system education in the Grand Valley cannot be overstated. An important part of the focus group discussions dealt with what participants thought it would take to implement a strategy for action in the Valley and positively catalyze change. Without exception, all of the participants stated four essential elements for success:

- Acknowledgement of the challenges;
- Political will;
- Community outreach and education; and
- Consideration of the consequences of doing nothing.

If a greater diversity of housing products is not made available within the Grand Valley, employees will be forced to seek housing elsewhere, increasing impacts on the regional environment and infrastructure. In addition, efforts to attract industry and assist existing businesses with expansion efforts will be challenged (as evidenced by the recent expansion of St. Mary's Hospital). Without diversity, existing residents will be forced to leave the market as changes in their lifestyle dictate a need for different product types that cannot feasibly be delivered in the Grand Valley. Continued homogeneity in the housing market will eventually diminish the ability of government to provide services as their territories expand at densities that challenge the feasibility of public expenditures and the provision of services. Finally, the region's quality-of-life will be diminished as home ownership remains out of reach, and rental opportunities remain scarce. The existing housing market in the Grand Valley may be active, but it is not producing the desired results and benefits that can be the product of a deliberate and unified regional housing strategy.

The *Grand Valley Housing Strategy* is intended to assist the housing advocacy partners that funded and participated in its preparation, with the tools to serve and guide growth and development of housing fore the near- and long-term. The recommendations presented herein were developed with input from the Steering Committee and guidance from the Consultant Team. The information is designed to provide for thoughtful consideration and sound decision-making. Finally, it is the recommendation of the authors of this report that the information contained herein be reviewed and updated often, as conditions change and strategies are advanced.

Wire Works Lofts, Denver, CO

Grand Valley Housing Strategy

Grand Valley, Colorado

Executive Summary

Prepared by:

LELAND CONSULTING GROUP

In Association With:

RRC Associates, Inc. – Chris Cares
JCRC – James Coil

30 April 2009

The existing housing market in the Grand Valley may be active, but it is not producing the desired results and benefits that can be the product of a deliberate and unified regional housing strategy.

Preface

The *Grand Valley Housing Strategy* is the product of a public-private initiative to create long-term, sustainable solutions for housing challenges in the Grand Valley. Grand Valley jurisdictions, in partnership with private and nonprofit entities, are seeking to address barriers to housing investment, while also capitalizing on market opportunities and attending to product voids through development of a comprehensive housing strategy.

Purpose and Objectives

The purpose of the *Grand Valley Housing Strategy* is not to provide solutions for the peaks and valleys in the region's housing cycle, but rather to strengthen its base and, in so doing, make it better able to weather fluctuations that are inevitable in the Grand Valley. To this end, it has been designed to provide a framework for monitoring market conditions, while also providing appropriate responses and recommendations, and keeping all of the public and private partners involved in the process.

The objectives of the *Strategy* are to:

- Document those housing issues that present the most significant challenge for the respective participating communities (see Preface);
- Document and monitor economic and market conditions;
- Understand the spectrum of needs and desires;
- Determine why the market can't or won't respond; and
- Develop solutions to barriers and strategies for advocates to work together.

The project's end goals are:

- To build community awareness;
- To enhance the efficiency of the delivery of services (time is money);
- To increase certainty and predictability for the development community;
- To provide incentives for private investment in key areas;

- To create a platform for trusted partnerships; and
- To build a sustainable framework from which to focus on the Grand Valley's range of housing needs, to monitor the housing market, to track progress toward meeting the housing needs, and to make strategic adjustments in response to changing conditions.

Grand Valley Housing Issues

During the strategy process, stakeholder and leadership input, together with market and financial analyses, brought to the forefront several key issues that require innovative solutions and policy reform. Among those issues identified by members of the housing delivery system including property owners, developers (for profit and non-profit), real estate brokers, lenders, institutional and community leaders, and others were:

- Fluctuations in growth rates;
- Private sector reluctance to invest and reinvest in Grand Valley cities and towns;
- Limited resources necessary to fill financial gaps associated with the construction of select housing product types;
- Few locations, appropriately-zoned, that can accommodate mixed-use developments and / or higher densities;
- Lack of program offerings for existing home owners desiring to finance improvements to owner-occupied units;
- Community resistance to density;
- Limited code enforcement;
- Desire for enhanced environmental sustainability;
- Concentrations of mobile home parks;
- Homelessness; and
- Migrant housing.

Given the depth and complexity of several of these issues, not all of them have been addressed in this housing strategy. Rather, key issues, especially those that have been determined to most significantly impact the ability of the region to address the diversity of need in the Grand Valley, are considered and strategies advanced in the list of *Recommendations* presented on the following page. A schedule for these strategic actions and the entities involved in addressing them is presented in greater detail in the *Strategies* section of the full report.

Recommendations

Improve the Process

1. Streamline Entitlement Process; Cultivate and Promote a "Pro-Business" Philosophy
2. Encourage Density Bonus Programs -- develop, improve and promote
3. Complete Cost-Benefit Analysis; Analyze Jurisdictions' Codes for Provisions Which Impose Costs that Exceed the Public benefit
4. Coordinate Planning Efforts and Policy Documents; Agree on Growth Assumptions; Monitor Progress in Meeting Demand
5. Develop Turn-Key Plans for Private Development to Speed Approvals

Community Outreach

6. Develop Design Standards for Higher Density Mixed-Use Development, via a public input process
7. Quantify the Community Benefits of Increased Density vs. Costs associated with "Doing Nothing", i.e., increased costs of sprawl
8. Survey Housing Preferences to Determine Receptivity to Product Variety; Hold Workshops to Address Concerns Related to Higher Density Development

Maximize Public and Non-profit Resources to Leverage Private Investment

9. Research and Develop Creative Incentive Programs for Affordable Housing Development, including -- rebate of sales taxes, infrastructure investment, reduced development fees, as well as other innovative solutions (may be based on relative affordability)
10. Acquire Land in Strategic Locations and Ready it for Development -- the use of existing non-profit entities is strongly encouraged
11. Work with Local and Regional Lenders to Fund Loan Pools
12. Create an Equity-Sharing Program for Low- and Moderate-Income Home Ownership
13. Establish and Capitalize a Local Housing Trust Fund – with a dedicated revenue source to leverage private investment

Focus, Monitor and Adjust Over Time

14. Appoint a Valley-Wide Task Force to Implement the Recommendations -- charge it with continually monitoring market conditions and sharing them with members of the delivery system and community

Market and Economic Conditions

Because the market continues to exhibit high levels of volatility, adoption of a long-term housing strategy for the Grand Valley will be essential. The dramatic price increases seen in recent years have slowed significantly, but housing is not yet affordable to many Grand Valley residents. Among the indicators considered in the context of this effort are those related to: job levels, industry growth, home prices, and housing attainability. Some of these are summarized in the discussion below and all are presented in greater detail in the full report.

- Job growth continued in 2008, despite slowing at the national level. The local economy added a total of 2,800 nonfarm jobs during the past year, at a growth rate of 4.5 percent.
- Despite the fact that Garfield County reported the highest levels of drilling activity, the majority of residents working in this industry in 2008 lived in Mesa County. (65 percent of mining workers in the Piceance Basin report their residence is Mesa County.)
- From 2004 through 2007, median sale price increases in the double digits was the norm. In 2008, the median price was up 2.9% from one year earlier, representing a slowdown in price gains, but providing a stark contrast to the 10 percent decline at the national level.
- The median single family sales price in the Planning Area was up to $224,900 in the first quarter of 2009 almost double its 2001 level and 37 percent higher than the national median of $164,600.
- Residential sales activity peaked in 2006 at just over 4,000 units, but was down 8% in 2007. This decline accelerated to 23 percent in 2008. Fewer than 2,900 homes were sold in the past year.
- The Planning Area had a relatively more affordable housing market than both the U.S. and Denver in the early part of the current decade. Since then, the Planning Area single family home affordability index[1] dropped to below 100. More dramatic price declines will push the Denver and U.S. affordability indices to their highest levels in the past 8 years, while the Grand Valley's index will remain close to its low point.
- Rental vacancy rates in the Planning Area were at 3.1 percent in the fourth quarter of 2008. This is the first time they have been above 3 percent since the third quarter of 2005.
- New construction of apartment units has been virtually dormant with only 237 attainable units delivered in the last 10 years. The largest new apartment projects in Mesa

[1] A measure of relative affordability derived from comparing median home price to median income.

County were Low Income Housing Tax Credit developments.

- As of the first quarter of 2009, over 1,300 families were on waiting lists with the Grand Junction Housing Authority (GJHA), most with incomes under $10,000 and only able to afford rents of $200 to $300 per month.
- The American Community Survey indicates that between 2005-2007, about 43% of renters in Mesa County paid more than 30 percent of their household incomes for gross rent. Among households with incomes less than $35,000, 65% paid more than 30 percent of income for rent.
- A little over half of renters in Mesa County are not eligible for affordable housing programs, but many still fall short in their ability to pay market rents, or the level of rents which would support new multifamily construction. At 80 percent of AMI (Area Median Income), households can only afford rents below $800 per month.

What are the Region's Needs?

For the purpose of the *Grand Valley Housing Strategy*, projected household growth was analyzed along with historical patterns of single- and multi-family development to arrive at an estimated demand for new housing in the Planning Area of approximately 16,700 units over the next 10 years, or approximately 1,670 units annually. Note: Growth assumptions are consistent with those used in the Grand Junction Comprehensive Plan Update 2009.

Approximately 4,400 units (or nearly 26%) of the Planning Area's 10-year demand could be in the form of rental units, or approximately 440 units annually. Attached ownership housing (condominiums and townhomes) appears to be underrepresented in the Valley compared to other communities of its size. Of the 12,310 units of ownership demand, approximately 20% could be delivered in the form of an attached product (assuming policy and regulatory support and developer capacity) based on demographic and consumer preferences. This translates into demand for approximately 2,480 attached ownership housing units in the Planning Area over the next 10 years, or approximately 250 units annually.

More detail regarding demand by price point and housing product type are summarized below:

- Fifty-one percent of all demand for attached ownership units will be for units priced between $150K and $250K. 45% of all demand for detached ownership units will be for product in this price range.

- Future demand for 1,280 units at rents below $375, combined with existing demand for at least 1,300 units (number of families on waiting list with GJHA) at this level, suggests a significant deficit at this point in the Grand Valley for the foreseeable future.

- Over the next 10 years, there will be demand for 2,200 units, or 50% of all rental demand, priced below $625.

- Provision of rental housing to households below Area Median Income (AMI) is primarily left to advocacy agencies including the Grand Junction Housing Authority, Housing Resources of Western Colorado, and other non-profit developers.

- More than 1,300 units in the Planning Area are eligible for rehabilitation, but funding for this improvement activity is extremely limited. [2]

- Increased demand for rental units, as well as townhouse / condo units will require higher densities than are now typically built / approved in the market. Assuming an average density of 16 to 18 units per acre for rental units and 12 to 14 units per acre for attached ownership units, the Planning Area will require the following acreages with appropriate zoning designations.

	Density (units / acre)	Acres
Single Family	1 to 10	2,420
Townhome / Condo	12 to 14	190
Rental	16 to 18	260
		2,870

- 16,700 new units by 2018 will require 2,870 acres

- More than 70% of this acreage (2,100 acres with 5,100 lots) is already in the municipal or county development pipeline, <u>however</u>:

  - Over 90 percent of the acreage in the pipeline has a density of 5 units per acre or less.

  - <u>The pipeline already contains more than enough product at 0 to 2 and 3 to 5 units per acre</u>.

  - <u>Land for developments at 5 or more units per acre is well short of demand</u>.

  - 6,000 to 7,000 lots / units are in various stages of processing – most in developments of less than 5 units to the acre.

[2] Using county assessor GIS data, parcels were screened as rehab candidates if they were one of several multi-family account types constructed prior to 1985. A comprehensive field survey of each of several aggregated parcels was conducted in Oct 2008 to determine property type, construction material, overall condition, estimated occupancy, and notes on surrounding properties.

- A typical lot cost of $75,000 to $80,000, at a density of 3 units per acre, creates an $80K gap between the cost of development and a sale price of $250,000.
- At current land and construction costs, there is a 40 percent gap between the costs of delivering apartments priced at rents of $1.10 per square foot. (Note: As of the first quarter of 2009, market rents were averaging $0.85 per square foot.)

Why the Shortage?

Experience has proven that when market opportunities exist (as borne out by the demand analysis presented above), yet development doesn't happen, or it doesn't happen in a meaningful and responsive way, barriers exist. Low rental vacancy rates, yet declining permit activity alone suggests that barriers are hindering the free market from being able to address demand in a strategic and equitable way. Specific explanations for why the market has not responded to demand came through input gained from representatives of the community during a series of small group meetings held over several days in October 2008. Broad categories of barriers to investment and reinvestment (expressed as both perceptions and reality) in the housing market, identified by these groups, included those listed below.

- Availability of multi-family zoned land;
- Disparities between the cost of construction (including land costs) and value of development;
- Escalating government and special district fees and extended application processing times;
- Uncertainty around the rezoning process;
- Limited availability of private equity;
- Inexperience among local builders in delivering a greater range of product types;
- Perceived competition among for-profit and non-profit builders;
- Resistance to higher density development;
- Inconsistent interpretation of building codes and the costly delays this creates;
- Out-dated code provisions and inappropriate application (based on product type and project location);
- Size of the market that effectively limits competition ("small builder delivery system");
- Expense of retooling for new products among builders familiar with a specific product type; and

- Lack of experience among lenders and appraisers associated with mixed-use developments.

A more detailed discussion about impediments to investment and the input of stakeholders in the process is presented in the full report.

Conclusion

A comprehensive housing strategy seeks to align demand with supply, effectively allowing for greater movement within the market while also responding to fluctuations in market conditions over the near- and long-term.

Successful implementation of the *Grand Valley Housing Strategy* will be dependent not on the existence of this document, but rather on committed leadership from the public and private sectors. Without trust and participation from multiple interests, the *Strategy* will soon be obsolete. Without exception, all of the participants in the process stated four essential elements for success:

- Acknowledgement of the challenges;
- Political will;
- Community outreach and education; and
- Consideration of the consequences of doing nothing.

The *Grand Valley Housing Strategy* is intended to assist the housing advocacy partners that funded and participated in its preparation, with the tools to serve and guide growth and development of housing for the near- and long-term. The recommendations presented herein were developed with input from the Steering Committee and guidance from the Consultant Team. The information is designed to provide for thoughtful consideration and sound decision-making. Finally, it is the recommendation of the authors of this report that the information contained herein be reviewed and updated often, as conditions change and strategies are advanced.