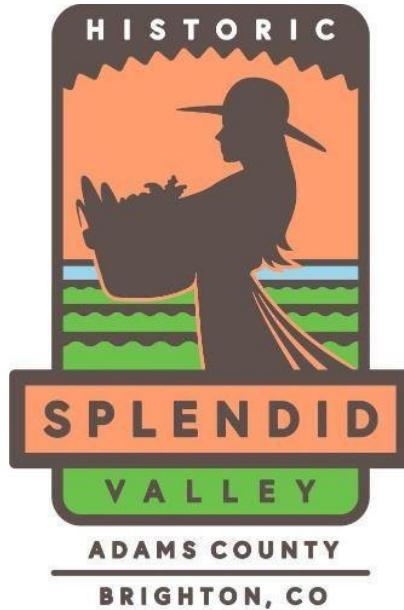


Report

Splendid Valley Transfer of Development Rights Study

The Economics of Land Use



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1. Executive Summary

Introduction

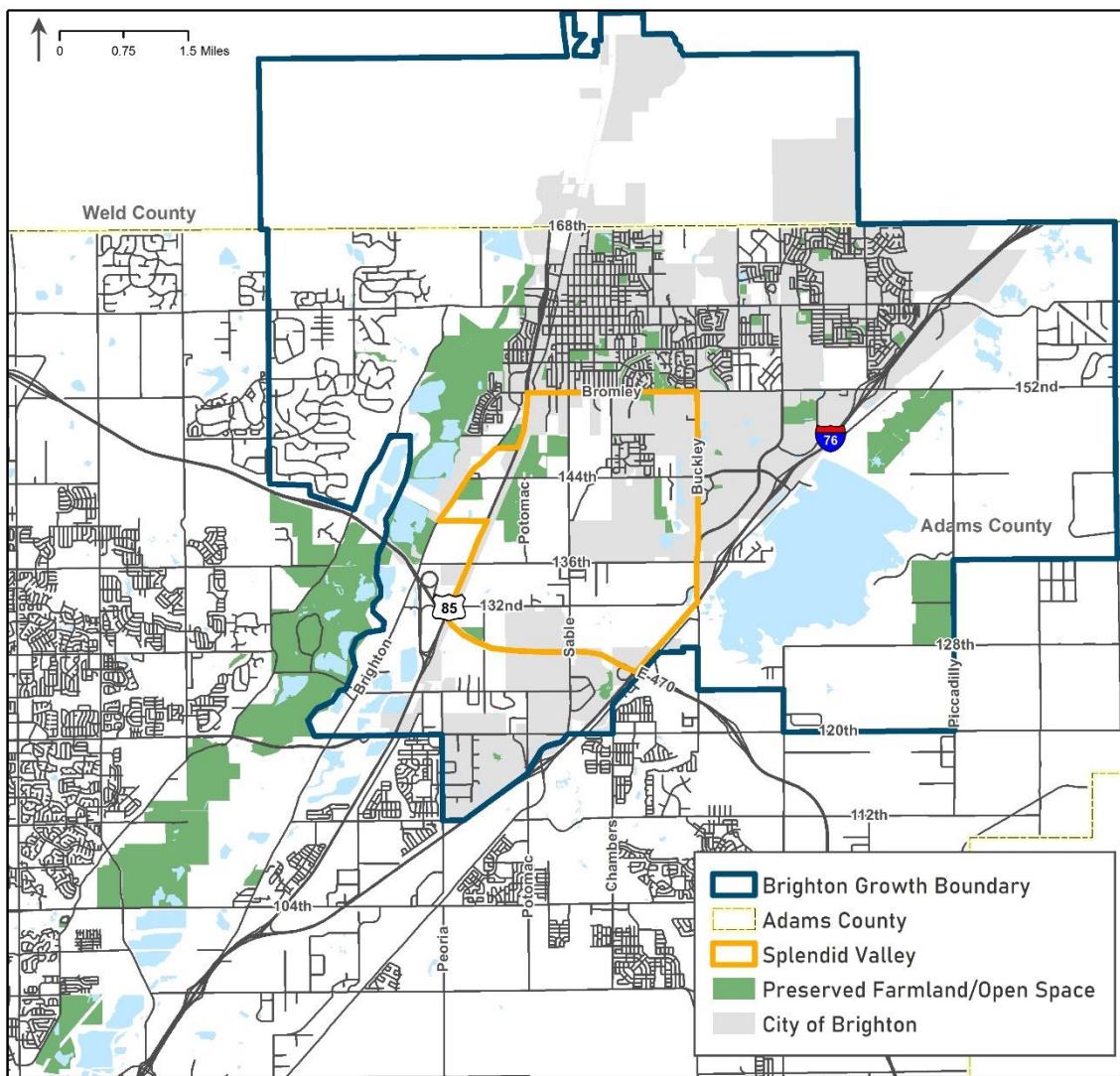
The City of Brighton and Adams County adopted the District Plan for Historic Splendid Valley (HSV) in April 2016. The purpose of the plan is to provide policies, strategies, and guidance for preserving farmland in the HSV as well as encouraging local food production and promoting agritourism. Preserving farmland in this area has been a priority for the City and County for many years. The benefits of doing this are numerous for both communities. Preserving these farms supports continued economic diversity and provides the opportunity to capitalize on the trend of consumers seeking local food and authentic tourism experiences. These farms grow fruits and vegetables that are sold locally and distributed regionally, providing fresh, healthy produce for families.

HSV is approximately 4,500 acres south of Bromley Lane, north of E-470 and east of the South Platte River as shown in **Figure 1**. The area has high quality farmland with senior water rights and has been farmed for generations. There are large vegetable growing and nursery operations, multiple farm stands, and community supported agriculture (CSA) operations. The area contributes to Brighton's small-town rural character but is under increasing pressure for development that would convert farmland to housing primarily, and other urban land uses. The landowners also have valuable water rights that could be sold for municipal use, making the farmland no longer viable for the fruit and vegetable crops grown today.

A key recommendation in the District Plan is to evaluate the feasibility of updating the County's existing transfer of development rights (TDR) program to create receiving areas within Brighton's Urban Service Area to accommodate urban level densities proximate to existing infrastructure in order to preserve more farmland in HSV. TDR is a market-based incentive tool in which landowners sell development rights that are transferred for use on another property. The sending area is the defined area where development rights are sold. When development rights are sold, the landowner retains ownership of the land, the right to continue to use and occupy the property, and the right to continue farming. The sending area land is placed under a conservation easement or other restrictive covenant that prohibits additional development. Water rights would also be included in the conservation easement and tied to agricultural properties in the District Plan or HSV area.

The receiving area is a defined area where the development rights are transferred. Developers can use "TDRs" purchased to gain additional density (more housing units) above what is allowed under the existing zoning. Successful TDR programs leverage private money to preserve land, therefore reducing the need for public investment in conservation.

Figure 1. Historic Splendid Valley Study Area



Study Purpose

The District Plan recommended that a feasibility study be conducted to determine if updating the County's TDR program could be effective in preserving farmland in HSV. Adams County and the City of Brighton issued a request for proposals (RFP) in 2020 for a TDR study. Economic & Planning Systems (EPS) was selected through a competitive process to complete this study. This Report summarizes the analysis and research conducted as part of this feasibility study and contains our recommendations.

Report Structure

This Report contains six chapters outlined below:

1. **Executive Summary:** Introduction, Definitions, and Summary of Findings.
2. **Market Conditions:** An overview of housing market conditions and demographics in Brighton that influence the market for TDR and additional density.
3. **Sending Area Evaluation:** An evaluation of HSV sending area land use conditions against several criteria that need to be met for successful TDR.
4. **Financial Evaluation:** An examination of the financial aspects of TDR from a land developer and landowner perspective using a simple land development pro forma.
5. **Receiving Area Evaluation:** An evaluation of potential receiving areas against the criteria for successful TDR.
6. **Other Tools and Strategies:** Summarizes the applicability of other tools and strategies for preserving agricultural land in HSV.

Transfer of Development Rights

Definitions

Transfer of Development Rights (TDR) is a land preservation tool that allows owners of sensitive lands to be compensated for preserving their property and forgoing existing development rights. It is a voluntary market-based tool that aims to leverage private development and investment to acquire conservation easements on sensitive lands, reducing the need for public conservation funding.

A TDR program is comprised of the key components outlined below.

- **Sending Area** – A defined area where sensitive lands are targeted for preservation or restricted development. This is the area where development rights are sold and transferred to a receiving area.
- **Receiving Area** – The area(s) where the purchased development rights are transferred. These development rights or “TDRs” can be used to gain additional development potential or density above what is allowed by the current land use and zoning regulations.
- **TDR Allocation Rate** – The number of development rights per acre of land in the sending area. This can be defined in a TDR program ordinance.
- **Transfer Ratio** – The number of units of density gained for each TDR purchased. Many TDR programs have an enhanced transfer ratio as an additional incentive to use the TDR program. For example, 1 TDR can be defined to equate to 2, 3, or more additional dwelling units.
- **Pricing** – The value of TDRs needs to be established at a level that fairly compensates landowners for their forgone development rights, and that allows the purchaser to see enhanced value or profit from purchasing them. The private market usually sets the price unless a local government is purchasing and banking TDRs in a similar Purchase of Development Rights (PDR) program.

Requirements for Successful TDR

There are five essential elements for TDRs to be implemented successfully. These and other factors were identified by Pruetz and Standbridge (2008)¹ and by Walls and McConnell (2007).²

Demand for bonus density and development

There must be a market for new development and for the type of development that would result from the additional density possible through TDR. In a predominately suburban setting such as Brighton, additional density would generally result from decreased single family housing lot sizes (an increase in dwelling units per acre).

¹ Rick Pruetz & Noah Standridge (2008) What Makes Transfer of Development Rights Work?: Success Factors From Research and Practice, Journal of the American Planning Association, 75:1, 78-87

² Margaret Walls & Virginia McConnell (2007) Transfer of Development Rights in U.S. Communities: Evaluating program design, implementation, and outcomes, University of Maryland-Baltimore County, and Resources for the Future.

For single family attached housing (duplexes and townhomes), higher densities can be achieved also with smaller lots, shallower setbacks, and more compact parking (e.g. tuck under parking). In a multifamily setting, additional density would be gained from adding height. For multifamily development in Brighton, rents are not likely to support the construction costs needed to go from 3 story wood frame construction with surface parking to 4 or 5 story housing with structured parking. Likewise, single family attached housing is a small portion of the market in Brighton. Therefore, the focus in this Report is on single family detached housing and building lots in a TDR program.

Strict sending area land use regulations

The more permissive development and land use regulations are in a sending area, the more lucrative it is to develop the property. This also makes the TDRs more expensive to acquire and therefore less attractive to purchasers. Planning literature suggests a minimum baseline density of 1 unit per 5 acres or lower, but the land values in the local market are also important to consider along with this baseline density compared to the densities of new construction in the market.

Clear receiving areas and certainty in process

The areas in which additional density will be placed must be clearly identified. Also, the process for getting the additional density approved must be highly certain. If a discretionary approval process is needed for increased density, it adds time and risk to the prospective developer and purchaser of TDRs, reducing the appeal of the program.

Few or no alternatives to TDR for gaining density

In receiving areas, the base land use and zoning densities need to be below what is preferred in the market, or at a level where acquiring additional density makes financial sense. If a developer can achieve the desired and profitable densities through a typical land use and zoning process without using a TDR program, there will be little motivation to use TDR.

Financial incentive for additional density

The additional density acquired through TDR must create additional value or profit; otherwise there is no incentive to acquire the TDR and engage in potential complexity within the development process.

Findings and Recommendations

- 1. Most new housing development in Brighton is comprised of single family detached homes built with lot sizes ranging from approximately 6,000 square feet or less (5 units per acre) to approximately 8,000 square feet (3.8 units per acre).**

For TDR to be successful, the sending and receiving areas need to have a baseline allowable density much lower than what the market is providing. If the allowable densities in a receiving area are consistent with the market, there will be no motivation to purchase development rights to gain additional density. In the sending area, if a landowner can develop the property in a manner consistent with the market (or sell it for similar development) under the existing zoning and land use regulations, they will have a strong economic motivation for development rather than preservation, and it will be more costly to acquire properties for conservation purposes that have marketable development potential.

- 2. There are approximately 1,500 acres within HSV that meet the criterion for a TDR sending area, comprised of land with Adams County Agricultural Zoning (A-1, A-2, and A-3) and the City's Local District Mixed Use and Natural Resource Conservation future land use designations.**

The baseline density allowed in most of the unincorporated portions of the HSV study area ranges from 1 unit per 2.5 acres (A-1) to 1 unit per 10 acres (A-2) and 1 unit per 35 acres (A-3). In addition, Adams County cluster zoning allows lot sizes from 2.5 to 5.0 acres, with an average of 1 unit per 17.5 acres for a total project. These land use regulations require larger lot sizes than what comprises most of the housing demand in and around Brighton, making the area suitable as a TDR sending area because the development potential is limited compared to the market.

If land under County zoning (in Unincorporated Adams County) were to be annexed into Brighton, the City zoning applied would need to be consistent with the City's Comprehensive Plan and/or the District Plan. This gives the City leverage to influence future development in Splendid Valley. The properties designated Low Density Mixed Use (LDMU) and that currently have County agricultural zoning are well suited for TDR as sending areas. LDMU allows residential development with minimum lot sizes of 20,000 square feet (approximately a 0.5 ac.) to 35 acres. However, the Plan requires that development complement agricultural heritage and agricultural economic development. Sustainable design and integrated agriculture are encouraged. The overall density approved may be closer to what is envisioned in the County's cluster zoning standards due to the intent to integrate agriculture and preserve land. These allowable densities are also below most of the market demand and are suited to TDR in a sending area.

This is not to imply that the properties are not marketable for development. There is flexibility in the LDMU land use designation for creativity to design projects that incorporate housing and elements of functional agriculture. Continuing to build HSV's brand around farming and food will help to market this type of development.

3. *No viable receiving areas for development rights could be identified, which is the major limiting factor for TDR.*

EPS and City and County staff examined numerous areas and properties within the City and GMA as potential receiving areas. The criteria we applied included:

- Zoning or future land use densities lower than 1 unit per 2.5 acres
- Potential to be served with municipal utilities in a reasonable timeframe
- Contiguity of large areas and development sites.

Eleven sites were identified for further screening, some unincorporated and some already annexed. The future land use designations and their supportive zoning allows a range of residential densities from Low Density Residential (0.5 to 5.0 units/acre), to Medium Density Residential (5 to 12 units/acre), to High Density Residential (12 or more units/ acre). These allowable residential densities are consistent with the current Brighton development market.

Therefore, there is unlikely to be demand for additional density on these sites.

Two areas that were screened out of the list of 11 sites should still be considered for a longer-term TDR or other preservation strategy: east of I-76 in unincorporated Adams County, and north of Baseline Road in Weld County. Both areas have low density County zoning and Agriculture future land use designations. The supportive zoning in the Comprehensive Plan for Agriculture is A/R (35 ac. minimum lot size) and RE and AE (20,000 sq. ft. minimum lot size). These are lower density zoning classifications in which developers may be motivated by additional density through smaller lots gained through TDR purchases. While these areas may not be likely to develop at urban/suburban densities in the near future due to water and sewer infrastructure constraints, establishing a regulatory framework early and ahead of development would allow time for the land market to adjust. The County could explore modifying the receiving areas in the current County TDR program to include these areas.

4. *The conditions needed for a successful TDR program are only met partially; therefore, this program is not recommended for use in HSV.*

The future land use policies in the District Plan combined with the existing County zoning regulations provide a good framework for minimizing impacts to farmland from development by maintaining relatively low development densities, which is favorable for HSV as a TDR sending area. The major limitation is in identifying good receiving areas. Without viable receiving areas in the City's Growth Management Area (GMA) or within city limits, there would be no market for purchased development rights.

The current County TDR program has not been utilized in approximately 10 years, likely due to a lack of development demand in the receiving areas. The County receiving areas are largely northeast and east of DIA and along county roads north of I-70 and the Town of Bennett. This area has not experienced significant development demand, which may be a reason for the lack of utilization of the program. Development pressure is moving east however, and there could be an opportunity to re-examine the County receiving areas.

5. *Single family detached development is not as well suited to bonus density as vertical multifamily development.*

In a single family detached development, each additional building lot gained through a TDR or other density bonus mechanism triggers lot development costs of at least roughly \$70,000. These horizontal infrastructure costs are relatively fixed in vertical multifamily or condominium development in which density is usually gained through height: each additional unit does not trigger significant additional infrastructure costs. Adding height can result in higher per unit construction costs and is only feasible in markets where rents can support higher costs and often structured parking.

6. *Two other tools could be considered as long-term strategies: a density transfer fee or a farmland mitigation requirement. Both can be implemented by ordinance as a land use regulation.*

Density Transfer Fee

Density transfer fees (DTF) are similar to TDR but less complex to implement and administer. A DTF program charges a fee for density increases and the revenue is used to fund conservation programs. We identified two density transfer fee programs in Colorado: Gunnison County and the Town of Berthoud, both nationally recognized models. These programs are described in more detail in Chapter 6.

Gunnison County's program allows a project to reduce its open space requirement by half – from 30 to 15 percent of the project area – by paying a density transfer fee. The fee is 10 percent of the increase in land value before and after the subdivision is approved. The program applies countywide and exempts affordable housing. The revenue from the DTF must only be used for acquiring land and conservation easements for permanent preservation.

Berthoud's program is similar except that it is applied to re-zonings that grant additional density. Each unit gained from a rezoning is subject to the fee: \$3,000 per single family unit and \$1,500 per multifamily unit.

The effectiveness of a DTF is still influenced by the base land use and zoning. If the additional or desired density can be gained through the typical entitlement process or already exists under current zoning or future land use, there will be little motivation to participate in the voluntary program. A DTF could be considered as a long-term strategy in the areas east of I-76 and potentially Weld County as described above.

Farmland Mitigation Requirement

Farmland mitigation programs require that an equal or greater amount of farmland be preserved if a project converts farmland to another use. Farmland mitigation programs have been used throughout the U.S. but are most prevalent in California's Central Valley. The programs can be structured in various ways to favor paying a fee-in-lieu, or to favor acquisition of actual property or conservation easements making it more difficult to "fee out" of the requirement. Mitigation property and/or fee revenue is either held by a government entity or an approved land trust. Similar to a DTF, a mitigation program could be considered on farmland judged to be of lower priority than HSV. Projects developing on farmland would be required to either purchase land, conservation easements (with water rights), or pay a fee-in-lieu of acquisition.

While TDR and DTFs are more – but not purely – voluntary, a mitigation requirement would be mandatory. Like a DTF, fee revenue from a mitigation program is flexible and can be used for conservation acquisitions as they arise.

For any of these programs, a concise explorative study should be conducted to evaluate potential fee levels and the methods by which land would be appraised for a Density Transfer Fee.

- 7. *The best course of action may be to continue acquiring farmland properties or conservation easements when funding is available and to further explore partnerships with land trusts and philanthropists. The City could also evaluate local support for an additional funding mechanism such as a small mill levy.***

Adams County is fortunate to have a 0.25 percent space sales tax dedicated to open space, parks, and outdoor recreation that raises \$17.0 to \$20.0 million annually. The County retains 30 percent of this revenue; the other 70 percent is distributed to the municipalities. Using this revenue, Great Outdoors Colorado (GoCo) Grants, and partnerships with The Conservation Fund (a non-profit organization), the City and County have preserved over 300 acres of farmland in HSV. There are at least 1,100 additional acres that are considered prime farmland that should be targeted for conservation.

The City also has a 0.75 percent sales tax dedicated to the Parks and Recreation Capital Fund. Typically, these funds are used for park and recreation and park facility construction and major maintenance, however farmland improvement projects and general land acquisition expenditures are also made occasionally. This funding source can be used as well, but farmland acquisition expenditures would need to be balanced with the community's demand for other recreation needs.

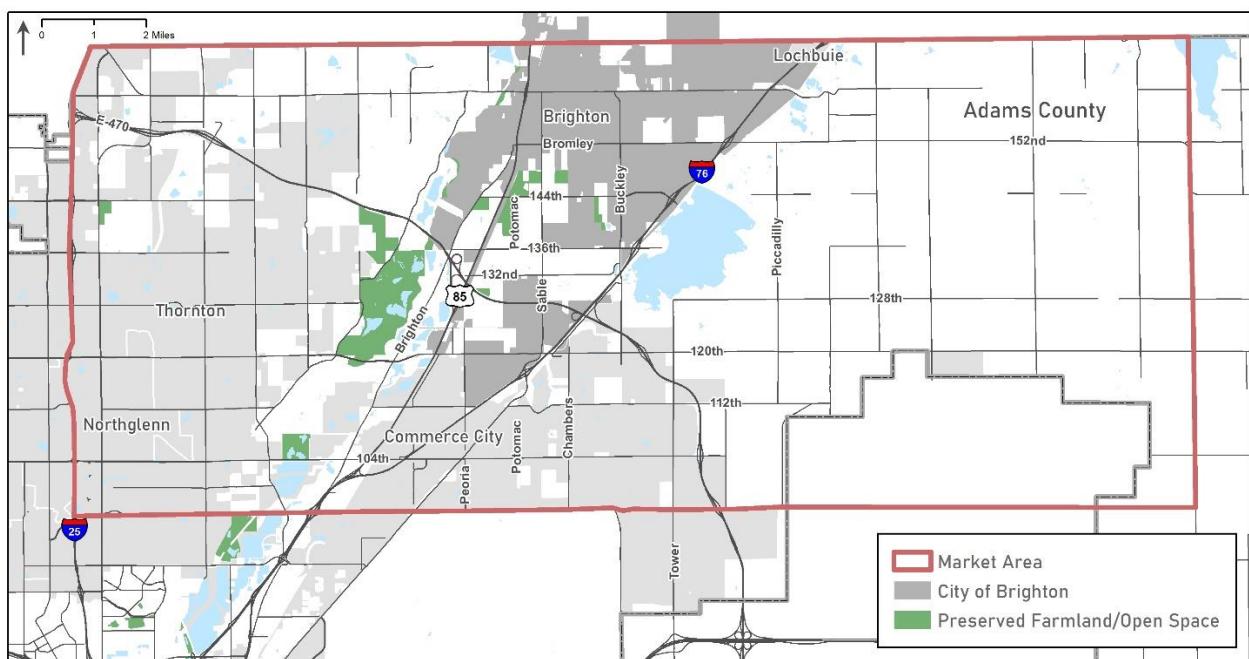
GoCo grants are highly competitive, and there are also many demands on the current dedicated sales taxes. To broaden potential funding sources, the City and/or County could also consider seeking additional funding from voters at the appropriate time. A mill levy of 1.000 mill would generate approximately \$320,000 per year in the City; 3.000 mills would generate nearly \$1.0 million per year.

2. Market Conditions

This chapter contains an overview of growth trends, demographics, and housing market conditions in the City of Brighton and a surrounding Market Area defined below. Market conditions are analyzed to understand Brighton's residential real estate market and the change in home prices, type, and size over time. Residential demand and market preferences are important factors in considering the feasibility of TDR.

The Market Area is defined as a subarea within Adams County that is bounded by I-25 to the west, Imboden Road to the east, 96th Avenue to the south, and the Adams County boundary line to the north, as shown in **Figure 2**. This Market Area is used for comparison as it includes a larger area outside of Brighton and Brighton's Growth Management Area as well as areas for potential growth in unincorporated Adams County. Additionally, the Market Area includes portions of Thornton, Commerce City, and Northglenn.

Figure 2. Market Area



Population and Households

The City of Brighton is a growing suburb in the Denver Metro area. It has experienced a large amount of growth over the past 20 years, nearly doubling its population. In 2019, Brighton had a population of over 40,500 residents, which is an increase of 19,000 people since 2000. Most of this growth occurred over the 2000 to 2010 timeframe, when it grew by 12,046 residents or approximately 1,200 residents each year, shown in **Table 1**. This represents an annual growth rate of 4.6 percent. Brighton's population growth slowed from 2010 to 2019 when it grew by 7,052 residents or approximately 780 residents per year or 2.1 percent annually.

Many of the communities near Brighton experienced similar growth trends with higher population growth occurring from 2000 to 2010 compared to 2010 to 2019. The Market Area – which includes portions of Brighton, Commerce City, Thornton, and Unincorporated Adams County – increased by 77,437 people from 2000 to 2010 or approximately 7,700 people per year. From 2010 to 2019 this area increased by 37,700 people or approximately 4,200 people per year. Over this time period, the City of Brighton accounted for about 18 percent of the total population growth in the Market Area.

Households tend to grow at similar growth rates as population. Therefore, most of these communities experienced more growth in households from 2000 to 2010 compared to the past 10 years. From 2010 to 2019, Brighton's households increased by 2,141 or an average of 238 households per year. In the larger Market Area, households increased by approximately 12,000 or an average of 1,300 households per year.

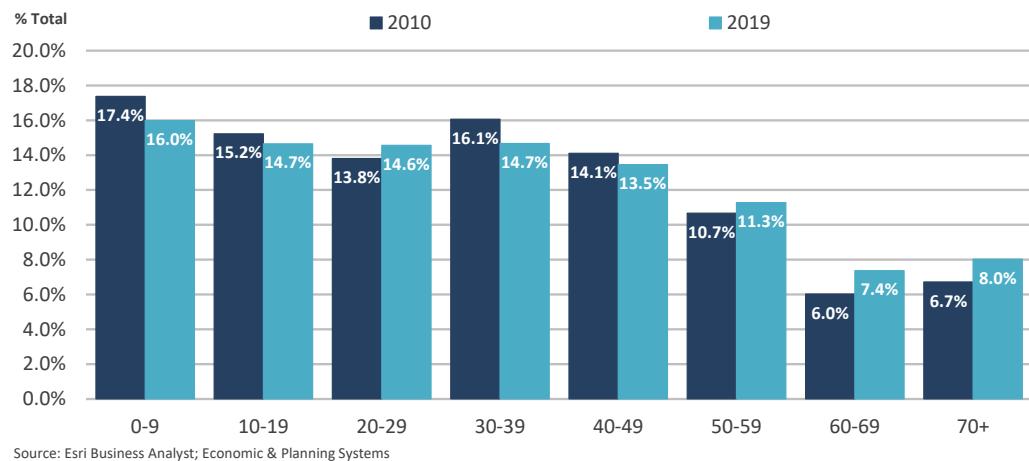
Table 1. Population and Households, 2000-2019

Description	2000	2010	2019	2000-2010			2010-2019		
				Total	Ann. #	Ann. %	Total	Ann. #	Ann. %
Population									
Brighton	21,486	33,532	40,584	12,046	1,205	4.6%	7,052	784	2.1%
Commerce City	22,146	45,924	55,990	23,778	2,378	7.6%	10,066	1,118	2.2%
Lochbuie	2,830	4,726	6,770	1,896	190	5.3%	2,044	227	4.1%
Fort Lupton	7,165	7,536	8,315	371	37	0.5%	779	87	1.1%
Hudson	1,821	2,386	1,780	565	57	2.7%	-606	-67	-3.2%
Market Area	107,490	184,927	222,625	77,437	7,744	5.6%	37,698	4,189	2.1%
Households									
Brighton	6,896	10,834	12,975	3,938	394	4.6%	2,141	238	2.0%
Commerce City	7,072	14,484	17,584	7,412	741	7.4%	3,100	344	2.2%
Lochbuie	956	1,631	2,330	675	68	5.5%	699	78	4.0%
Fort Lupton	2,234	2,460	2,699	226	23	1.0%	239	27	1.0%
Hudson	470	525	613	55	6	1.1%	88	10	1.7%
Market Area	36,513	63,212	75,261	26,699	2,670	5.6%	12,049	1,339	2.0%

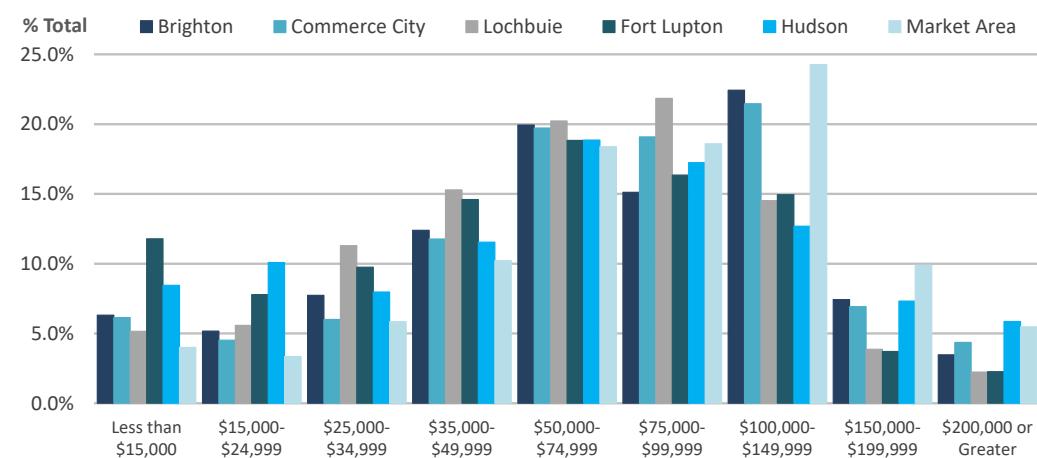
Source: Esri Business Analyst; U.S. Census; Economic & Planning Systems

The population and household growth between 2010 and 2019 has attracted a consistently similarly aged population to the city, shown in **Figure 3**. The age distribution over this timeframe has stayed relatively the same with a large presence of families and young adults. The high proportions of children 19 years old and younger as well as adults ages 30 to 49 years old is indicative of the amount of entry level single family housing that is attracting younger families. Additionally, there is a substantial portion of young adults in their 20s, which has increased slightly since 2010.

Figure 3. Brighton Age Distribution, 2010-2019



In 2019, the household income distributions in Brighton and Commerce City were similar with most households, approximately 60 percent, earning between \$50,000 and \$149,999 annually, shown in **Figure 4**. Each of these cities also had approximately 11 percent of households earning less than \$25,000 annually and approximately 11 percent of households earning \$150,000 or more. Additionally, about 20 percent of these households earned between \$25,000 and \$49,999 annually. The Market Area had higher overall household incomes than Brighton and Commerce City, which is weighted due to the inclusion of Thornton. The communities to the northeast, Lochbuie, Fort Lupton, and Hudson, had lower household incomes compared to Brighton. Brighton's median household income in 2019 was \$72,000 and the Market Area was \$84,000, shown in **Table 2**.

Figure 4. Household Income Distribution, 2019

Source: Esri Business Analyst; Economic & Planning Systems

Table 2. Household Income, 2019

Description	Brighton	Commerce City	Lochbuie	Fort Lupton	Hudson	Market Area
Median Household Income	\$72,267	\$76,713	\$63,272	\$56,021	\$63,521	\$84,036
Average Household Income	\$85,451	\$88,553	\$75,007	\$69,236	\$83,927	\$98,315
Per Capita Income	\$27,528	\$27,899	\$26,089	\$22,220	\$28,607	\$33,296

Source: Esri Business Analyst; U.S. Census; Economic & Planning Systems

Housing Market

As of 2019, Brighton had over 13,200 housing units and has gained 1,761 units since 2010, shown in **Table 3**. This is an average of nearly 200 units per year, of which 177 were owner occupied units and 61 were renter occupied units. Across all geographies, most of the housing growth has occurred with owner occupied units. The Market Area gained over 10,000 housing units since 2010 to reach a total of 76,318 units in 2019. This is an average of 1,121 units per year, of which 1,077 units were owner occupied and 262 units were renter occupied.

Additionally, Brighton and Market Area had low vacancy rates in 2019 of 1.7 and 1.4 percent, respectively.

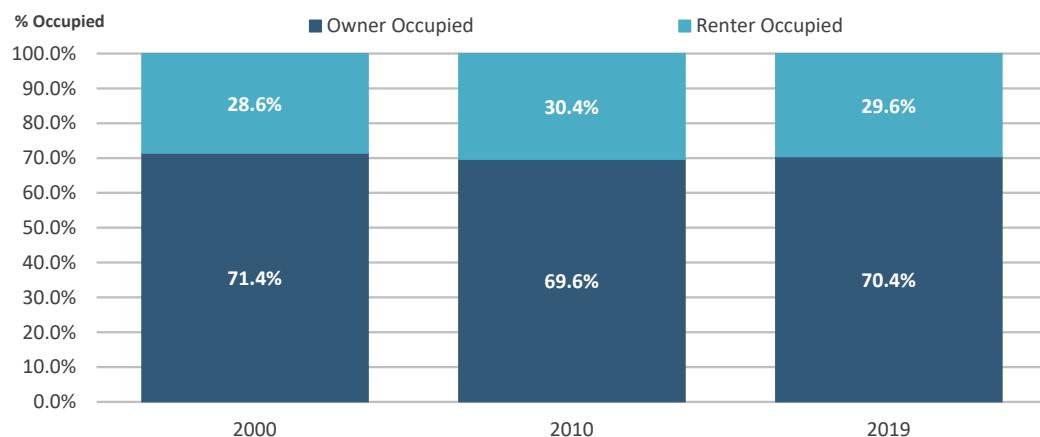
Table 3. Housing Units, 2000-2019

Housing Units	2000	2010	2019	2000-2019			2010-2019		
				Total	Ann. #	Ann. %	Total	Ann. #	Ann. %
Brighton									
Owner Occupied	4,922	7,542	9,134	4,212	222	3.3%	1,592	177	2.2%
Renter Occupied	1,974	3,292	3,841	1,867	98	3.6%	549	61	1.7%
Vacant	280	610	230	50	3	-1.0%	380	42	-10.3%
Total	7,176	11,444	13,205	6,029	317	3.3%	1,761	196	1.6%
Commerce City									
Owner Occupied	4,483	10,108	13,120	8,637	455	5.8%	3,012	335	2.9%
Renter Occupied	2,589	4,376	4,464	1,875	99	2.9%	88	10	0.2%
Vacant	242	975	389	147	8	2.5%	586	65	9.7%
Total	7,314	15,459	17,973	10,659	561	4.8%	2,514	279	1.7%
Lochbuie									
Owner Occupied	809	1,380	2,036	1,227	65	5.0%	656	73	4.4%
Renter Occupied	147	251	294	147	8	3.7%	43	5	1.8%
Vacant	20	131	74	54	3	7.1%	57	6	-6.1%
Total	976	1,762	2,404	1,428	75	4.9%	642	71	3.5%
Fort Lupton									
Owner Occupied	1,542	1,623	1,918	376	20	1.2%	295	33	1.9%
Renter Occupied	692	837	781	89	5	0.6%	56	6	-0.8%
Vacant	45	152	114	69	4	5.0%	38	4	-3.1%
Total	2,279	2,612	2,813	534	28	1.1%	201	22	0.8%
Hudson									
Owner Occupied	368	357	452	84	4	1.1%	95	11	2.7%
Renter Occupied	102	168	161	59	3	2.4%	7	1	-0.5%
Vacant	20	46	45	25	1	4.4%	1	0	-0.2%
Total	490	571	658	168	9	1.6%	87	10	1.6%
Market Area									
Owner Occupied	29,099	47,168	56,857	27,758	1,461	3.6%	9,689	1,077	2.1%
Renter Occupied	7,414	16,044	18,404	10,990	578	4.9%	2,360	262	1.5%
Vacant	1,106	3,020	1,057	49	3	-0.2%	1,963	218	-11.0%
Total	37,619	66,232	76,318	38,699	2,037	3.8%	10,086	1,121	1.6%

Source: Esri Business Analyst; U.S. Census; Economic & Planning Systems

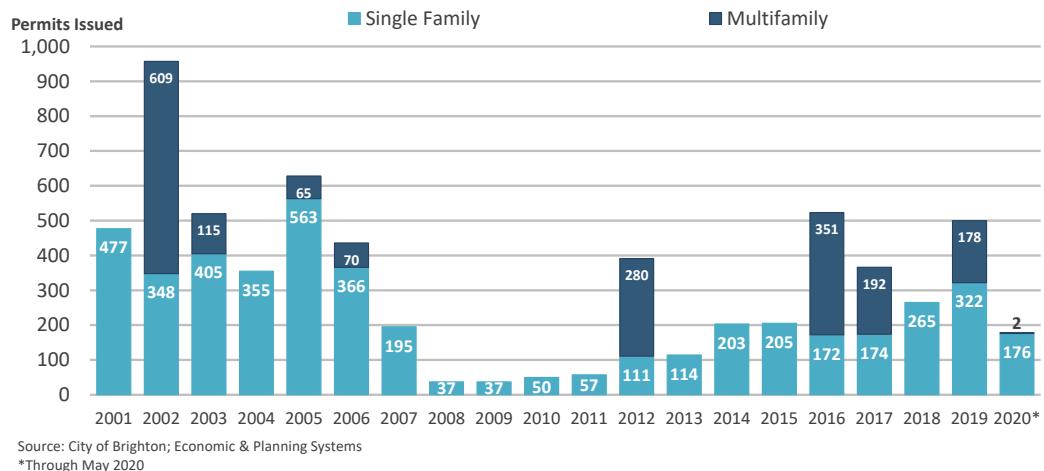
Occupied housing units in Brighton are comprised of 70 percent homeowners and 30 percent renters, shown in **Figure 5**. This ratio between owners and renters has been a consistent trend since 2000. This ratio of owners and renters is similar to Commerce City and the Market Area, both with 75 percent homeowners and 25 percent renters. Housing in Brighton and the surrounding area is predominantly owner occupied, single family units.

Figure 5. Brighton Housing Tenure, 2000-2019

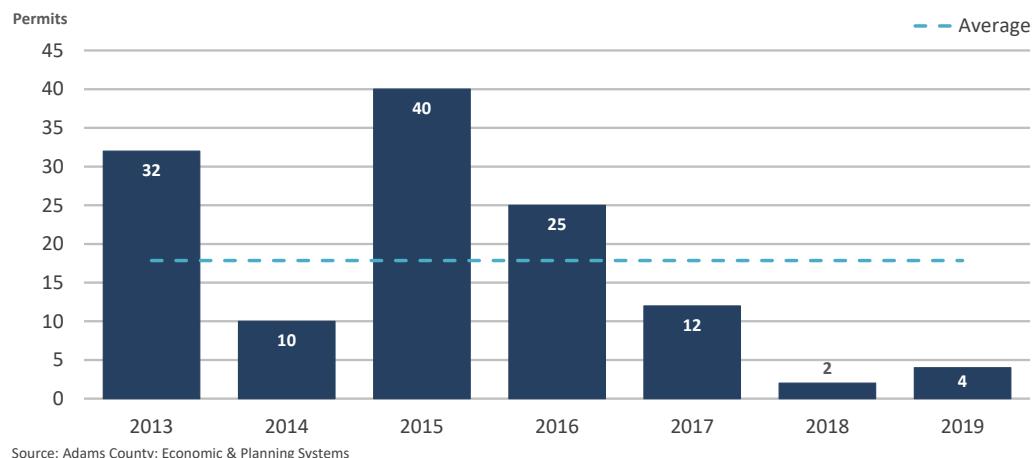


Source: Esri Business Analyst; Economic & Planning Systems

New construction building permits in Brighton are shown below in **Figure 6**. Brighton added an average of 510 units per year pre-recession from 2001 to 2007. During the Great Recession new residential construction dropped to 37 to 57 units per year. Post-recession new construction grew, but not at the same levels previously, with an average of 305 units per year from 2012 to May 2020. Over this time, single family residential averaged 196 units per year and multifamily averaged 125 units per year. Single family construction tends to be a more stable annual trend, while multifamily construction is influenced by the size of an individual project, which can contain 100 or more units at one time.

Figure 6. Brighton Residential Building Permits, 2001-2020

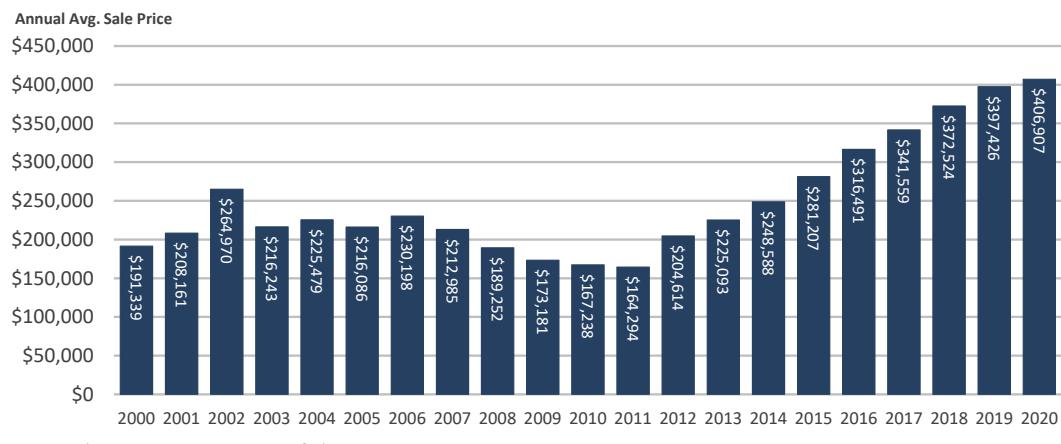
In the unincorporated portion of Adams County within the Market Area, a total of 125 residential building permits were issued from 2013 to 2019, an average of 18 units per year as shown in **Figure 7**. Since 2018, residential building permits have dropped to only a handful of units each year. Most of the residential development occurs within municipalities that are better equipped to provide services such as water, sewer, fire, and police.

Figure 7. Market Area Residential Building Permits, 2013-2019

Home Prices

Home prices have increased significantly in Brighton since the Great Recession as they have throughout the metro area. The current average home price is approximately \$400,000, based on our analysis of sales from the Adams County Assessor's parcel database, and has been steadily increasing since the recession as shown in **Figure 8**. Since 2012, the average home price has doubled, increasing over \$200,000.

Figure 8. Brighton Residential Price Trend, 2000-2020



Source: Adams County Assessor; Economic & Planning Systems

Looking specifically at sales of new construction, defined as homes built in the past five years, the average price in Brighton was \$422,000. New homes prices are concentrated between \$350,000 to \$500,000, representing 73 percent of the market, as shown in **Table 4**. This equates to about \$150 to \$250 per square foot. About 15 percent of the market is selling at \$500,000 or more and topping out at \$685,000.

Table 4. Brighton Residential Sales, 2015-2019

Home Sales	Total	% Total
Less than \$200,000	11	2.6%
\$200,000 - \$250,000	3	0.7%
\$250,000 - \$300,000	5	1.2%
\$300,000 - \$350,000	35	8.2%
\$350,000 - \$400,000	83	19.4%
\$400,000 - \$450,000	143	33.4%
\$450,000 - \$500,000	86	20.1%
\$500,000 - \$550,000	35	8.2%
\$550,000 - \$600,000	22	5.1%
Greater than \$600,000	5	1.2%
Total	428	100.0%

Source: Adams County Assessor; Economic & Planning Systems

The size of new homes is concentrated between 1,500 to 2,500 square feet, representing 64 percent of the market, shown in **Table 5**. An additional 22 percent of new homes are larger, reaching up to 3,000 square feet.

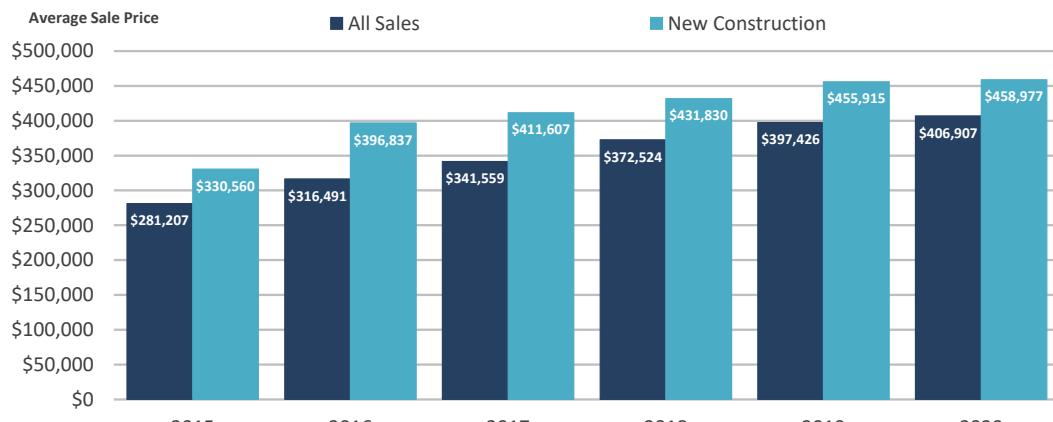
Table 5. Brighton Residential Price per Sq. Ft., 2015-2019

Home Sq. Ft.	Total	% Total
Less than 1,000	0	0.0%
1,000 - 1,500	13	3.0%
1,500 - 2,000	131	30.6%
2,000 - 2,500	144	33.6%
2,500 - 3,000	94	22.0%
3,000 - 3,500	35	8.2%
3,500 - 4,000	10	2.3%
Greater than 4,000	1	0.2%
Total	428	100.0%

Source: Adams County Assessor, Economic & Planning Systems

Comparing new construction (built in the past five years) to existing housing in Brighton, there is a small premium of between \$50,000 and \$60,000 for new homes, shown in **Figure 8**. The fast growth in Brighton has created a large amount of new housing resulting in minimal differentiation between new versus existing units. The small differentiation between new homes and resales could also be an indicator of a shortage of supply to meet demand.

Figure 9. Brighton New Construction vs. Total Sales, 2015-2020



Source: Economic & Planning Systems

Residential Lot Sizes

The density at which new homes are built in Brighton is an important consideration in the evaluation of TDR. A key question in this analysis is if there is a supply of land that can be developed at densities consistent with market preferences. In this section, we analyze residential densities and lot sizes in Brighton.

The average residential lot sizes in Brighton and the larger Growth Management Area (GMA) over the 2010 to 2019 timer period are shown below in **Table 6**. During this time period, lot sizes in the city were an average of 0.20 acres or 8,700 square feet. In the GMA outside city limits (in unincorporated Adams County), lot sizes were an average of 1.34 acres. The larger GMA area, which includes Unincorporated Adams County, consists of single family detached homes on large lots of 1 acre or larger. Within city limits, lot sizes are smaller with single family detached and attached units on 1/4 acre lot or smaller.

In both areas, average lot sizes have trended downward. In Brighton, lot sizes decreased by an average of 1,300 square feet. In the GMA, lot sizes decreased by about 9,600 square feet or almost a quarter acre. In Brighton, newer residential projects have lots ranging from 6,000 to 6,500 square feet, which is significantly smaller than historical averages, and continue to have homes averaging 2,000 square feet in size or larger. The main drivers of the decrease in lot sizes are land and infrastructure costs. Linear infrastructure costs decrease with lot size.

Builders need to be able to deliver homes in a price range that buyers can afford, and reducing lot sizes is one of the areas where builders and developers have worked to reduce costs. In addition, there is more profit per acre with smaller lot sizes (more units per acre).

Table 6. Residential Lot Sizes by Year Home Built, 2010-2019

Residential Lots	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019	
											Change	Avg.
Brighton												
Acres	0.21	0.24	0.22	0.22	0.19	0.18	0.18	0.19	0.19	0.18	0.03	0.20
Sq. Ft.	9,148	10,454	9,583	9,583	8,276	7,841	7,841	8,276	8,276	7,841	1,307	8,712
GMA												
Acres	1.55	1.30	1.34	1.26	1.25	1.16	1.41	1.32	1.51	1.33	0.22	1.34
Sq. Ft.	67,518	56,628	58,370	54,886	54,450	50,530	61,420	57,499	65,776	57,935	9,583	58,501

Source: Adams County Assessor, Economic & Planning Systems

3. Sending Area Evaluation

This chapter is an evaluation of future land use policy and current zoning to determine if the current regulations in HSV meet the basic criteria for a sending area in a TDR program. The focus of this evaluation is land in HSV with a City future land use designation of Local District Mixed Use and Adams County agricultural zoning.

Preservation Goals

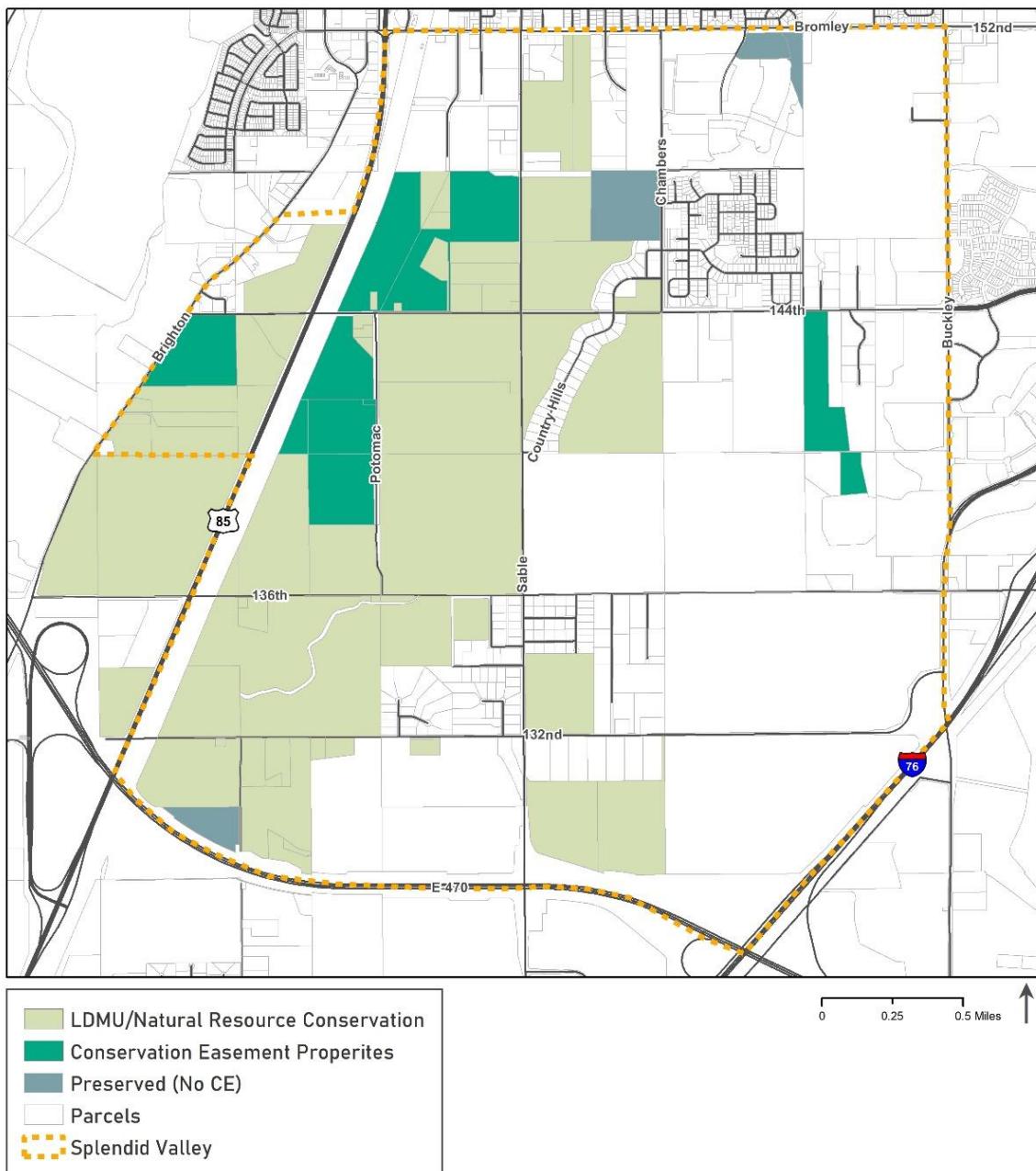
Historic Splendid Valley contains approximately 1,900 acres of Local District Mixed Use (LDMU) and Natural Resource Conservation future land uses, both of which support farmland preservation, shown in **Figure 10** on page 22. The City and County have preserved over 360 acres through fee simple property acquisition and purchasing conservation easements, shown in **Table 7**. The City and County have also purchased the water rights along with the land to ensure that it can continue to be farmed and the water shares are not sold separately.

Table 7. Key Farmland Properties, 2020

Property	Acres	Water Shares	Notes
LDMU/Natural Resource Conservation	1,536.71	945.00	
Preserved			
Stegman	39.00	50.00	Acquired
Letterly / 144th Ave	76.00	89.00	Acquired
Murata	38.30	30.00	Acquired
Tucson Open Space	16.00		Acquired
Eagle Preserve	46.00		Acquired
Bromley-Koizuma-Hishinuma Farm	10.00		Acquired
Hattendorf	64.00	71.00	Acquired
Berry Patch Farms	37.00	20.00	Conservation easement
Petrocco	<u>40.00</u>	<u>10.00</u>	Conservation easement
Subtotal	366.30	270.00	
Total	1,903.01	1,215.00	

Source: City of Brighton, Adams County, Economic & Planning Systems

Figure 10. Splendid Valley Farmland and Conservation Easements, 2020



Land Acquisitions

The properties and conservation easements, including water rights, that have been acquired by the City and/or County are shown in **Table 8**. The most recent conservation easement transaction was in 2004 (Berry Patch Farms) and is too old to be an indicator of current conservation easement values. Interviews with a conservation group indicate that conservation easements are generally valued at approximately 35 percent of the fee simple value. In this area, we estimate that a conservation easement would be priced at approximately \$18,000 per acre based on a fee simple land value of approximately \$50,000 per acre including water shares.

Table 8. Major Farm and Conservation Easement Acquisitions

Description	Year	Acres	Water Shares	City Funds	County Funds	Adams County Open Space	GoCo Grant	State Funds	Total Cost	Cost per Acre
Fee-Simple Acquisition										
Tucson Open Space	2003	16	N/A	\$68,000	\$0	\$0	\$0	\$0	\$68,000	\$4,309
Eagle Preserve	2014	46	0	\$30,000	\$0	\$400,000	\$0	\$500,000	\$930,000	\$20,209
Letterly	2011	76	89	\$1,700,000	\$0	\$1,710,500	\$0	\$0	\$3,400,000	\$44,902
Stegman	2009	39	50	\$1,800,000	\$0	n/a	\$0	\$0	\$1,800,000	\$45,860
Murata Brothers Farm	2019	38	30	\$0	\$1,935,000		\$0	\$0	\$1,900,000	\$49,608
Hattendorf Century Farm	2017	64	71	\$1,586,000	\$0	\$1,500,150	\$477,000	\$0	\$3,500,000	\$54,954
Bromley-Koizuma-Hishinuma Farm	2006	10	0	\$1,000,000	\$0	n/a	\$0	\$0	\$1,000,000	\$104,167
Conservation Easement										
Berry Patch Farms	2004	37	20	\$0	\$0	\$285,000	\$0	\$0	\$285,000	\$7,678
Petrocco Farms	1998	40	10	N/A	N/A	N/A	N/A	N/A	N/A	

Source: City of Brighton, Adams County, Economic & Planning Systems

Land Use and Zoning

In the study area, approximately 36 percent of the land is in Brighton's city limits and 64 percent is in unincorporated Adams County as shown in **Table 9**. The 1,595 acres in the city has Brighton zoning designations. The remaining 2,864 acres has Adams County zoning regulations.

Table 9. Historic Splendid Valley Land Use Jurisdiction

Jurisdiction	Acres	% Total
Brighton	1,595	35.8%
Unincorporated Adams County	<u>2,864</u>	<u>64.2%</u>
Total	4,460	100.0%

Source: City of Brighton, Adams County GIS, Economic & Planning Systems

However, since the entire area is within Brighton's Growth Management Area (GMA), it has a Future Land Use (FLU) designation within Brighton's Comprehensive Plan. Any property that seeks to annex into Brighton would need to comply with the City's future land use and zoning. There is an inter-governmental agreement (IGA) between the City and County that stipulates the County will deny special district requests if comparable service can be provided by the City in a reasonable timeframe in the Tier 1 areas closest to the municipal boundary. The City and County consult each other when land use cases arise in the GMA.

Adams County Zoning

For areas under Adams County's jurisdiction, land with the following zoning classifications are most suitable for TDR:

- Agricultural-1 (A-1) with a minimum lot size of 2.5 acres
- Agricultural-2 (A-2) with a minimum lot size of 10 acres
- Agricultural-3 (A-3) with a minimum lot size of 35 acres.

In the study area, nearly 800 acres of land (27 percent) are zoned in the A-1, as shown in **Table 10**. A-2 zoning makes up 260 acres (8.8 percent) and A-3 zoning makes up almost 1,900 acres (63 percent) of the area. The baseline density allowed in most of the study area therefore ranges from 1 unit per 2.5 acres to 1 unit per 10 acres and 1 unit per 35 acres. In addition, Adams County cluster zoning allows lot sizes from 2.5 to 5.0 acres, averaging 1 unit per 17.5 acres for a total project. These land use regulations are fairly restrictive compared to the market, making the area suitable as a TDR sending area as the land is less valuable than it would be with higher density zoning.

Table 10. Adams County Zoning in Splendid Valley

Adams County Zoning	Acres	% Total	Minimum Lot Size
Agricultural 1	796	27.1%	2.5 acres
Agricultural 2	260	8.8%	10 acres
Agricultural 3	1,856	63.1%	35 acres
Residential 1-C	9	0.3%	7,000-7,500 sq. ft.
PUD	<u>21</u>	<u>0.7%</u>	varies
Total	2,942	100.0%	

Source: City of Brighton, Adams County GIS, Economic & Planning Systems

Brighton Future Land Use

Brighton's future land use designations identify the desired future land uses and development intensity for the GMA. If land under County zoning (in Unincorporated Adams County) were to be annexed into Brighton, the zoning applied would need to be consistent with the City's Comprehensive Plan and/or the District Plan. This gives the City leverage to influence future development in Splendid Valley and the GMA.

Brighton's FLU designations for land in Splendid Valley are shown below in **Table 11**. A portion of the area is designated for future residential development at densities similar to what is being developed within the City currently, including Low Density Residential with 626 acres and 13 percent of the land area and Estate Residential with 396 acres and 8 percent of the land area. Low Density Residential allows residential development at gross densities of 0.5 to 5 units per acre and Estate Residential allows residential development at gross densities of 2 to 5 units per acre. These FLU designations would allow development consistent with the Brighton market, and therefore are not well suited for TDR. There is little reason or incentive for a developer to seek additional density when they can build what is demanded in the market through the normal development review processes.

Table 11. Brighton Future Land Use in Splendid Valley

Brighton Future Land Use	Acres	% Total	Density or Supportive Zoning
Agricultural	0.0	0.0%	Targeted for conservation
Commercial	101	2.0%	N/A
Employment - Commercial	601	12.2%	N/A
Estate Residential	396	8.1%	2-5 units/ac.
High Density Residential	83	1.7%	12+ units/ac.
Industrial	60	1.2%	N/A
Local District Mixed Use	1,255	25.5%	Targeted for conservation
Low Density Residential	626	12.7%	0.5-5.0 units/ac.
Medium Density Residential	149	3.0%	5-12 units/ac.
Mixed Use Commercial	196	4.0%	N/A
Mixed Use Residential	77	1.6%	R-3 Multifamily
Natural Resource Conservation	709	14.4%	Targeted for conservation
Parks & Open Space	624	12.7%	Targeted for conservation
Public Land	<u>44</u>	<u>0.9%</u>	Targeted for conservation
Total	4,921	100.0%	

Source: City of Brighton, Adams County GIS, Economic & Planning Systems

However, the properties with County agricultural zoning and the City's Local District Mixed Use (LDMU) designation on top of it are well suited for TDR as sending areas. LDMU allows residential development with minimum lot sizes of 20,000 square feet (approximately a 0.5 ac.) to 35 acres. However, the Comprehensive Plan requires that development complement agricultural heritage and agricultural economic development. Sustainable design and integrated agriculture are encouraged. It is unlikely that a project comprised of homogenous 20,000 acre lots would be permitted; the overall density may be closer to what is envisioned in the County's cluster zoning standards due to the intent to integrate agriculture and preserve land.

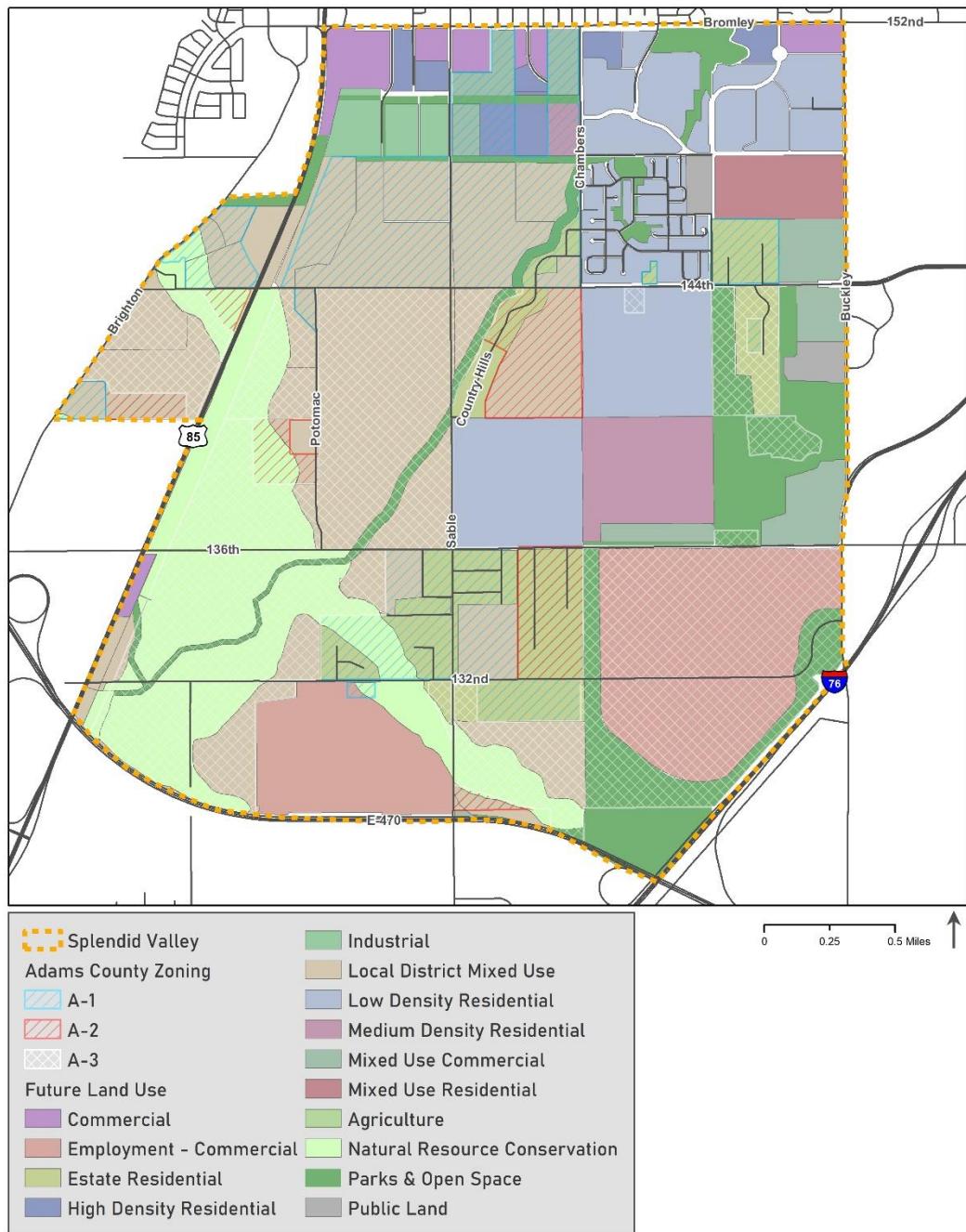
In **Table 12** and **Figure 11**, the acreage of land with County A-1, A-2, and A-3 zoning and the City's LDMU designation are estimated and shown. In total, there are nearly 1,200 acres of land estimated to meet these criteria. Developing under the LDMU designation may result in a reduction in density compared to the A-2 and A-3 County zoning, which would therefore be suitable for a TDR sending area. The theory being that the sale of TDRs could compensate landowners for the forgone development potential. In the TDR financial analysis shown in Chapter 5 a baseline density of 2.5 acre lots is assumed, which is consistent with the A-1 zoning classification – the most permissive of the three County zoning classifications.

Table 12. Brighton Future Land Use for Agricultural Zoned Land

Adams County Zoning	Future Land Use	Acres	Desity	Percent
A-1 2.5 ac. lots	Agriculture	0	Targeted for conservation	0.0%
	Commercial	0	N/A	0.0%
	Employment - Commercial	2	N/A	0.3%
	Estate Residential	212	2-5 units/ac.	29.9%
	High Density Residential	17	12+ units/ac.	2.4%
	Industrial	0	N/A	0.0%
	Local District Mixed Use	408	Targeted for conservation	57.5%
	Low Density Residential	0	0.5-5 units/ac.	0.0%
	Medium Density Residential	15	5-12 unit/ac.	2.2%
	Mixed Use Commercial	<u>55</u>	N/A	<u>7.8%</u>
	Subtotal	709		100.0%
	Natural Resource Conservation	46		
	Parks & Open Space	32		
A-2 10 ac. lots	Agriculture	0	Targeted for conservation	0.0%
	Estate Residential	98	2-5 units/ac.	42.2%
	Local District Mixed Use	133	Targeted for conservation	57.4%
	Low Density Residential	<u>1</u>	0.5-5 units/ac.	<u>0.3%</u>
	Subtotal	232		100.0%
	Natural Resource Conservation	35		
	Parks & Open Space	0		
A-3 35 ac. lots	Employment - Commercial	407	N/A	37.3%
	Estate Residential	61	2-5 units/ac.	5.6%
	Local District Mixed Use	619	Targeted for conservation	56.6%
	Low Density Residential	5	0.5-5 units/ac.	0.5%
	Medium Density Residential	0	5-12 unit/ac.	0.0%
	Mixed Use Commercial	0	N/A	0.0%
	Subtotal	1,093		100.0%
	Natural Resource Conservation	517		
	Parks & Open Space	242		
Total LDMU with Ag. Zoning		1,160		

Source: Economic & Planning Systems

Figure 11. County Agricultural Zoning and City Future Land Use Designations



Sending Area Conclusions

The properties best applicable as TDR sending sites include Unincorporated Adams County land with A-1, A-2, and A-3 zoning that also have the City's Local District Mixed Use future land use designation. The significant presence of these areas within Historic Splendid Valley create a suitable sending area for a TDR program.

4. Financial Evaluation

EPS has prepared a financial evaluation of TDR from the perspective of a potential seller and purchaser of TDRs. The seller's perspective is informed by current land values. A simplified land development pro forma was constructed to illustrate the TDR purchaser's perspective.

The scenarios presented show a hypothetical single family detached development purchasing TDRs to increase density from the baseline of 2.5-acre lots (A-1 County zoning) to 9,400 sq. ft. lots (0.22 acres) and 5,700 sq. ft. lots (0.13 acres).

Land Values and TDR Pricing

The price of a TDR is related to the cost of land. The financial pro forma scenarios model a project taking "raw land" through an annexation and entitlement process. Raw land in this case is defined as county-zoned land with water rights, near municipal utilities, and with certainty that annexation and approvals could be obtained through a predictable process. Land costs are estimated at \$50,000 to \$60,000 per acre based on appraisals and developer input assuming density of 3.0 to 5.0 units per acre gross. At 1.0 unit per acre, a \$30,000 per acre value is used.

The price of a TDR needs to adequately compensate the seller for the value they are forgoing by giving up the right to intensify development of their property. We have estimated that a TDR needs to be priced in the range of \$18,000 per acre. This is in the range of recent conservation easement transactions, which may have set a baseline expectation of development rights value. A literature search also indicates that conservation easement pricing is often in the range of 35 percent of total land value. With raw land values estimated to be in the \$50,000 per acre range including water rights, \$18,000 is 36 percent of the total.

TDR Allocation and Transfer Ratios

Two key variables that can be defined in a TDR program are the allocation rate and the transfer ratio. The TDR allocation rate here is set at 1.0 TDRs per 2.5 acres. This transfer ratio ties to the A-1 County zoning which allows 2.5 acre lots or larger, the highest density of the agricultural zoning categories in HSV. To equate to \$18,000 per acre, the price of one TDR needs to be \$45,000, as shown in **Table 13**.

A transfer ratio of 3 dwelling units per TDR is used to increase the incentive to the developer and TDR purchaser. The transfer ratio is shown in the pro forma in the next section.

Table 13. TDR Allocation Rate and Pricing

Description	Input or Calculation	Notes
Pricing Inputs		<u>% of Fee Value</u>
Land Value with Water Rights	\$50,000/ac.	
Conservation Value Estimate	\$18,000/ac.	36%
TDR Allocation Rate		
Property Size	80	ac.
1 TDR per	2.5	acres
TDRs available	32	
Value per TDR	\$45,000	90%
Compensation to landowner	\$1,440,000	
Per ac.	\$18,000	

Source: Economic & Planning Systems

The analysis is based on an 80-acre site with A-1 zoning. Under the County zoning, a total of 21 lots of 2.5 acres could be developed (108,900 sq. ft. each). The developer believes that smaller lots are in demand and can purchase TDRs to increase the number of lots yielded on the site. To achieve 3.0 units per acre, or 9,400 sq. ft. lots, they would need to purchase 73 TDRs, allowing them to gain 219 lots on the property, as shown in **Table 14**. To achieve 5.0 units per acre (5,700 sq. ft. lots), they would need to purchase 379 TDRs and would be able to develop 400 units. The cost per bonus unit is \$6,000 in TDRs as shown. The farmland landowner (TDR seller) would receive \$1.3 million at the 3.0 units per acre density and 183 acres of farmland would be preserved. Under the 5.0 units per acre example, the seller would receive \$2.27 million and 316 acres of farmland would be preserved as shown.

Table 14. TDR Density Bonus Acquisition Cost

	Base Density	TDR Bonus 3.0 DU/ac.	TDR Bonus 5.0 DU/ac.
Project Description			
Land Area (ac.)	80	80	80
Gross Density	0.26 DU/ac.	3.00 DU/ac.	5.00 DU/ac.
Gross Density with TDR	0.26 DU/ac.	35%	35%
Site Efficiency Factor (gross density to net density)	35%	35%	35%
Lot Size Sq. Ft.	108,900 sqft	9,400 sqft	5,700 sqft
Lot Size Acres	2.50	0.22	0.13
Lot Yield Increase	21	240	400
	N/A	219	379
TDR Density Bonus Acquisition			
1 TDR Per		2.50 ac.	2.50 ac.
Cost per TDR	per acre	\$18,000	\$18,000
Value per Acre to Seller		\$18,000	\$18,000
Receiving Area Bonus Units per TDR		3.00	3.00
TDRs Purchased to Achieve Target Density		73.07	126.40
Acres Preserved		182.67	316.00
TDR Acquisition Cost		\$1,315,200	\$2,275,200
Cost Per Bonus Unit		\$6,000	\$6,000

Source: Economic & Planning Systems

Lot Development Pro Forma

In this section, the TDR acquisition costs are combined with the raw land acquisition costs, lot development costs, and lot sale revenue into a financial pro forma.

First, the developer needs to acquire the site. At a conservative price of \$50,000 per acre, the raw land cost is \$4.0 million as shown in **Table 15**. This equates to \$22,000 per lot at 3.0 units per acre and \$15,700 per lot at 5.0 units per acre.

Land Development Costs

Based on interviews conducted with area developers, the cost to bring a piece of raw land to finished lots is estimated at between \$70,000 and \$100,000 per lot. In this example, \$80,000 in lot development costs is estimated for lots at a 3 unit per acre size range which is comprised of \$50,000 in on-site infrastructure and \$30,000 of off-site infrastructure. This is obviously site- and project-specific, but generalized working assumptions are needed for analysis purposes. Lot construction costs would increase or decrease by roughly \$10,000 for every 1,000 square feet of lot area. The impact of infrastructure costs has been the primary motivation for the growth in smaller lots in recent years. These costs do not account for the potentially long land holding period, protracted entitlement processes, and other risks and uncertainties.

Metropolitan District Reimbursement

We have assigned 25 percent of the lot development costs to a Title 32 Metropolitan (Metro) District which is a typical practice. The metro district levies a property tax paid by homeowners. The district then issues bonds backed by the revenues which reimburse the developer for the infrastructure costs. This reduces the upfront cash outlay that the developer needs to make by spreading costs over time and across homebuyers in the project.

After deducting the costs paid by the metro district, total land, TDR, and development, costs to the developer are estimated at \$20.6 million at 3.0 units per acre (\$86,000 per lot) and \$27.3 million at 5.0 units per acre (\$68,000 per lot). Note the lower cost per lot at the higher density of 5.0 units per acre.

Table 15. Lot Development Pro Forma

	Base Density	TDR Bonus 3.0 DU/ac.	TDR Bonus 5.0 DU/ac.
Land Costs			
Ag-Zoned Land with Water Rights	per acre	\$50,000	\$50,000
Site Acquisition	total	\$4,000,000	\$4,000,000
TDR Acquisition Cost		1,315,200	2,275,200
Total		\$5,315,200	\$6,275,200
Per Lot		\$22,147	\$15,688
Lot Development Costs			
Land and TDRs		\$5,315,200	\$6,275,200
Development Costs	per lot	\$85,000	\$70,000
Total In-Tract Costs		\$20,400,000	\$28,000,000
Metro District %		25.0%	25.0%
In-Tract Paid by Developer		\$15,300,000	\$21,000,000
Total		\$20,615,200	\$27,275,200
Per Lot		\$85,897	\$68,188
Project Land Value (Revenue)			
Home Price		\$750,000	\$550,000
Supportable Lot Value	24.0%	\$180,000	\$132,000
Value per Acre		\$46,800	\$396,000
Total Land Value		\$3,744,000	\$31,680,000
Land Developer Profit			
Per Lot		\$11,064,800	\$18,324,800
Percent		\$46,103	\$45,812
		54%	67%
Years until Lot Sales		2	2
Sales Per Year		40	40
Absorption Period		6.0	10.0
Internal Rate of Return (Approx.)		14.2%	15.4%

Source: Economic & Planning Systems

Finished Lot Value and Lot Sales

Lots that are ready to build on are selling for 23 to 25 percent of the finished home value and higher. This figure increased from 18 to 20 percent approximately 10 years ago because of the rising costs of water rights and infrastructure. Since homebuyers can only afford so much, the profit margins on land and infrastructure development are squeezed. Metro districts are viewed as a mechanism to compensate for this. In Brighton, finished lots are reported to be priced in the range of \$110,000 to \$130,000. As shown, the lot price at 3.0 units per acre is \$132,000 assuming a \$550,000 home. At 5.0 units per acre, the lot price is \$114,000 per acre with a \$475,000 home.

Land Value and Rate of Return

Land Value and Lot Sales Potential

The TDR program generates a large increase in land value for the developer, which is a strong incentive to use the TDR program. First, under baseline zoning they could have only developed 21 lots. The density gained allows them to develop 240 lots at 3.0 units per acre and 400 units at 5.0 units per acre. The land value potential increases from \$3.74 million under traditional County zoning to \$31.7 to \$45.6 million with the additional density gained and approved through TDR, measured by the total potential revenue from lot sales. The smaller lots are likely to be more marketable to homebuilders targeting home prices in the mid \$400,000 to \$500,000 range than the larger 2.5 acre lots.

Rate of Return

The total revenue potential from lot sales is one measure of the financial incentive of TDR. Developing and selling building lots takes time, and the concept of the time value of money needs to be considered: a dollar today is worth more than a dollar tomorrow. The 3.0 unit per acre project is estimated to take 6 years to sell out, while the 5.0 unit per acre project would take 10 years to sell out, as shown. During that time, the developer has holding costs and is exposed to risks beyond their control such as changes in the economy and market conditions which could delay lot sales.

An investor in a project that will take multiple years to complete will look at the expected annual rate of return. The rate of return is measured as the internal rate of return³ (IRR). Each scenario – 3.0 and 5.0 units per acre – are estimated to generate annual returns in the mid-teens shown above in **Table 15** at 14.2 to 15.4 percent. Returns in the mid-teens to mid-20 percent range are easily justified for a land development project, as land development is one of the highest risk activities in real estate.

There is no significant difference in the annual rate of return for these two scenarios. While the 5.0 unit per acre project generates more total revenue potential in lot sales, it takes place over a longer time period. The value today of the lot sales in the later years is low due to the uncertainty, resulting in a lower present value and internal rate of return.

The financial aspects of TDR are highly nuanced and depend on the specific project circumstances, and the individual investor/developer's investment requirements and risk tolerance. Some investors need to minimize their holding period and risk; others are willing to hold an investment for a longer time.

³ The internal rate of return is the expected annual rate of return on an investment. This expected return is compared to an investor's "hurdle rate"; the rate of return they feel is needed to justify the investment given its risks.

5. Receiving Area Evaluation

In this chapter, the future land use designations and zoning in the potential receiving areas are evaluated against the criteria identified as necessary for a successful TDR program. City and County staff identified several potential receiving area sites for evaluation in this study.

Potential Receiving Areas

The initial review sought to identify large general receiving areas outside city limits but within the Growth Management Area (GMA). The rationale for this approach was that annexation proposals would be an opportunity to leverage TDR, as property owners would have low density County zoning as a starting place and the City could negotiate development agreements that allow additional density through the use of TDR. In addition, TDR is best applied in a broad landscape scale conservation program. No viable areas could be identified for the following reasons:

- Vacant land west of US-85 in Adams County is largely committed for future development. These areas include Todd Creek and other metropolitan districts north and south of Highway 7.
- Areas east of I-76 were considered as they have low density County zoning. However, there are major infrastructure constraints, and it will be cost-prohibitive to serve this area with water and sewer in the foreseeable future. This area was therefore excluded for further consideration in this study.
- There are large undeveloped areas in Weld County north of Highway 7, also with low density zoning. Due to the complexity of expanding this effort into another county, this area was also eliminated.

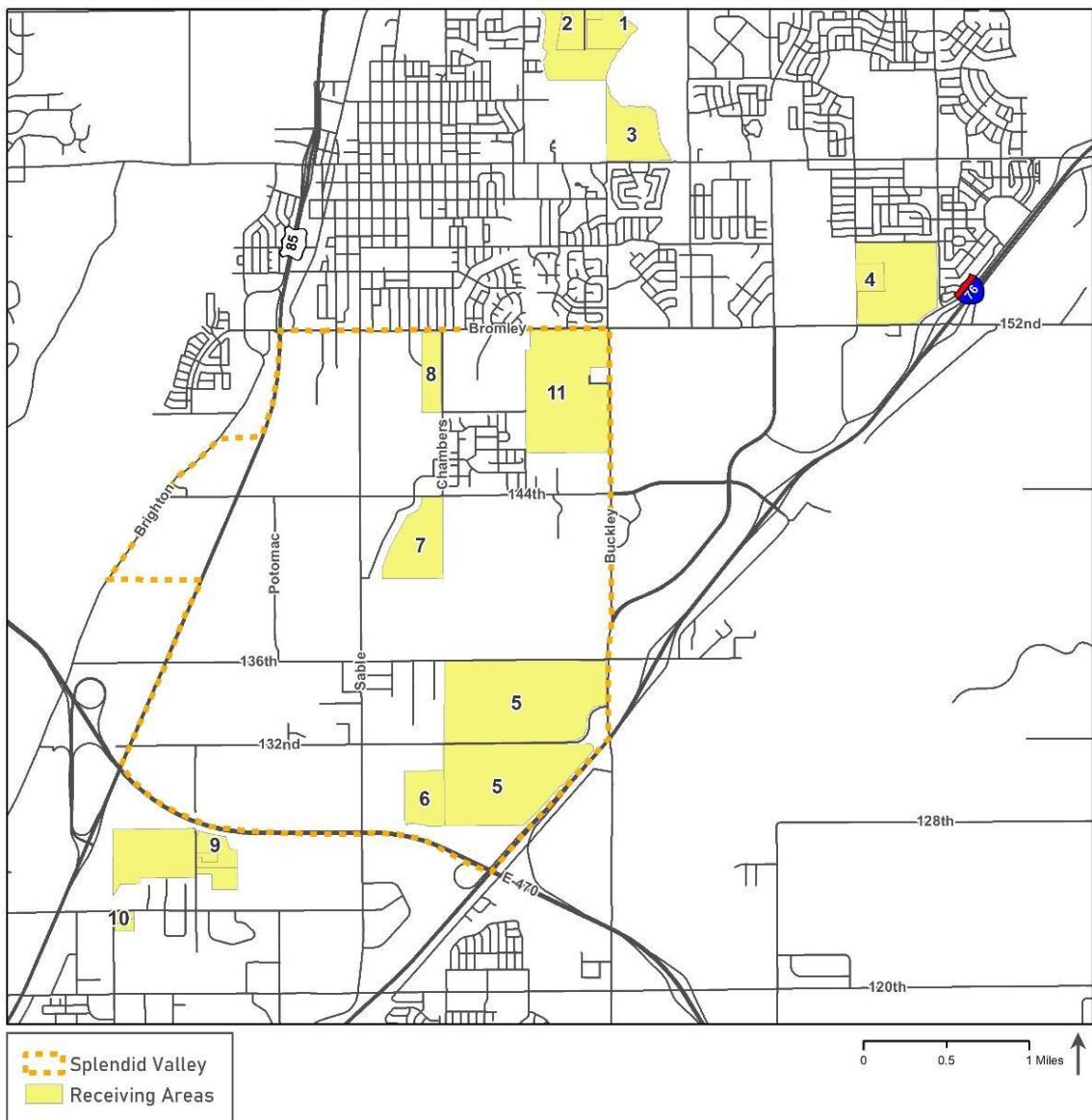
Eleven potential receiving areas were identified by City and County staff, listed in **Table 16** and shown in **Figure 12**. These properties are generally smaller and have not been annexed, and therefore retain County agricultural zoning. The lot sizes allowed by the County's agricultural zoning range from 2.5 acres (A-1) to 10 acres (A-2) and 35 acres (A-3). These lot sizes are larger than what makes up the bulk of housing demand in Brighton, potentially making them good candidates for TDR.

Table 16. Potential Receiving Areas

Area	Location	Acres	City or County	Zoning	Brighton FLU
1	Baseline (168th), east of 19th	103	County	A-1	Low density residential
2	Baseline (168th), east of 19th	24	County	A-1	Low density residential
3	Bridge St, west of Telluride	75	County	A-1	Low density residential, Mixed use commercial,
4	Bromley & I-76 (NW corner) 132nd (north and south of the road), west of I-76	151	County	A-3	Mixed use residential Employment (commercial), Parks
5	(parcel)	509	County	A-3	Local district mixed use
6	Chambers & 144th (SW corner)	51	County	A-3	Local district mixed use
7	Bromley & Chambers (SW corner)	79	County	A-2	Mixed use commercial, Medium density residential
8		36	County	A-1	Medium density residential, Natural resource conservation, Industrial, Medium density residential primarily low density residential and mixed use residential; small part commercial, parks&open
9	124th & Tucson (NW)	145	County	A-3 (small portion I-1)	
10	124th & Peoria (SE)	9	County	PUD	
11	Bromley and 27th (SW)	230	City	PUD	

Source: Economic & Planning Systems

Figure 12. Potential Receiving Areas



However, the City has applied future land use designations to these areas in its Comprehensive Plan. Upon annexation, landowners would have an expectation to be able to obtain the supportive zoning defined in the Comprehensive Plan that is consistent with the FLU designation. As shown in **Table 17** below, the FLU and supportive zoning allows a range of residential densities. Low Density Residential would allow densities from 0.5 to 5.0 units per acre. Medium Density Residential FLU allows 5 to 12 units per acre, and High Density Residential allows 12 or more units per acre. The Mixed Use Residential designation allows a variety of multifamily and single family attached home types.

Based on the market analysis in Chapter 2, the allowable residential densities in these receiving areas are consistent with the current Brighton development market. Therefore, there is unlikely to be demand for additional density on these sites.

Table 17. Potential Receiving Areas by Future Land Use

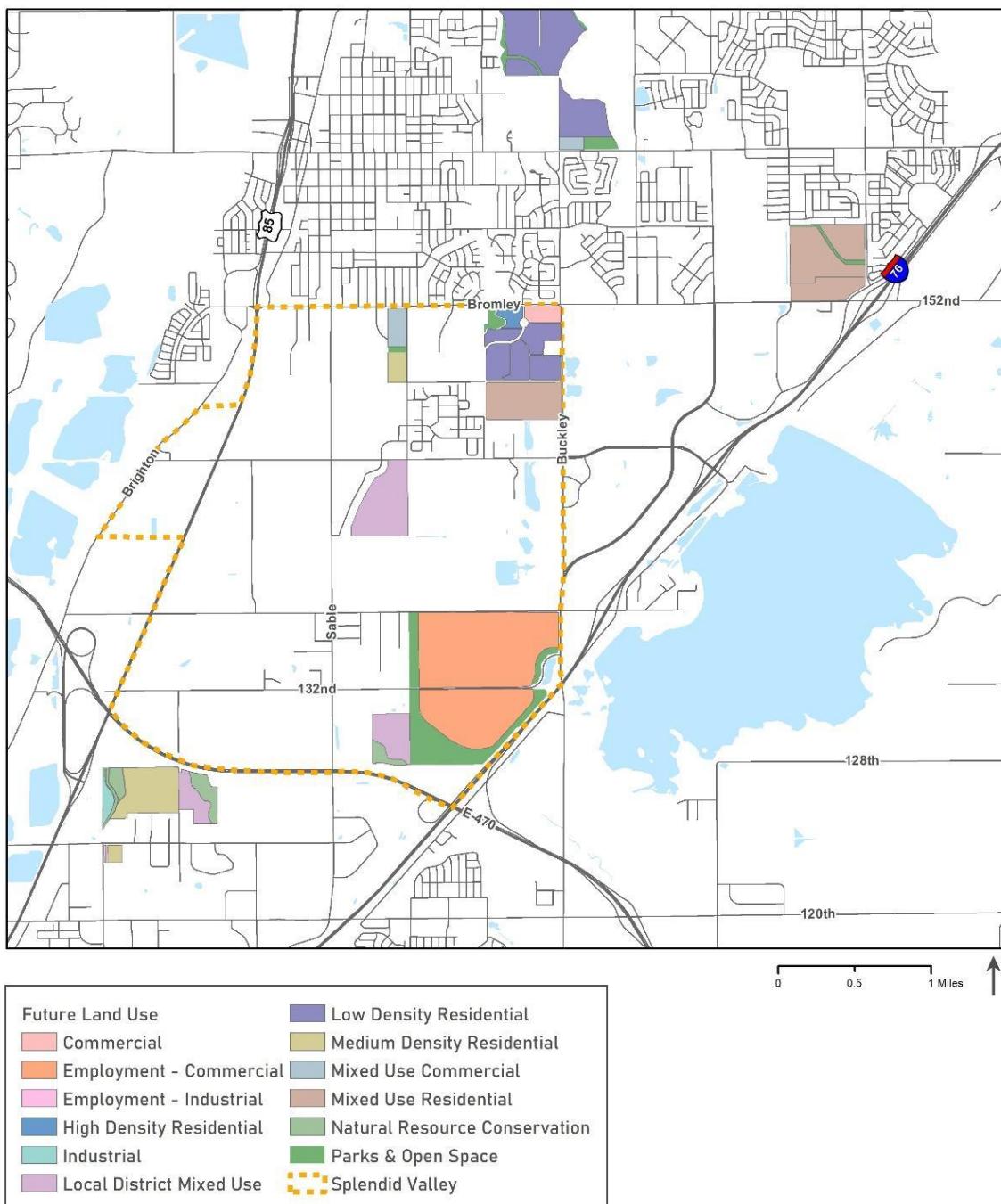
Receiving Areas FLU	Density	Acres	% Total
Potential TDR Receiving Sites			
Low Density Residential	0.5-5 du/acre	265.7	19.0%
Medium Density Residential	5-12 du/acre	95.1	6.8%
High Density Residential	12+ du/acre	12.4	0.9%
Mixed Use Residential	Multifamily/SF Attached	<u>219.9</u>	<u>15.7%</u>
Subtotal		593.1	42.4%
Commercial			
Employment - Commercial	N/A	399.6	28.6%
Mixed Use Commercial	N/A	27.4	2.0%
Commercial	N/A	16.5	1.2%
Industrial	N/A	9.6	0.7%
Employment - Industrial	N/A	<u>1.1</u>	<u>0.1%</u>
Subtotal		454.2	32.5%
Preservation Areas			
Local District Mixed Use	N/A	154.2	11.0%
Parks & Open Space	N/A	150.9	10.8%
Natural Resource Conservation	N/A	<u>45.2</u>	<u>3.2%</u>
Subtotal		350.3	25.1%
Total		1,397.7	100.0%

Source: City of Brighton; Adams County; Economic & Planning Systems

Receiving Area Conclusions

This analysis indicates that the lack of a sufficient number and acreage of potential receiving areas is the primary limitation to developing a viable TDR program for the HSV. The base density allowed in the FLU designations is too high to create an incentive to purchase the right to build at higher densities.

Figure 13. Potential Receiving Areas by Future Land Use



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6. Other Tools and Strategies

This chapter summarizes other approaches to conserving farmland and evaluates their applicability to the Brighton area and HSV. Historically, long range (comprehensive) planning and zoning have treated agricultural land as reserve land for future development. This practice has resulted in allowing low density residential subdivisions (1 to 10 acre lots) on agriculturally zoned land, and an expectation that the land can be developed at urban or suburban densities at some point in the future. Addressing land conservation proactively at the Comprehensive Plan level combined with other tools is an effective strategy. The District Plan has done this in HSV, but there may be a need to identify other priority agricultural lands in the GMA, especially if the City and County consider the density transfer fee and mitigation tools described below. Future land use designations in these areas should allow the uses that are compatible with the resource lands, while limiting development of incompatible land uses.

Density Transfer Fees

The first two approaches presented here are forms of development exactions: density transfer fees and farmland mitigation requirements. Density transfer fees (DTFs) have been called a "TDR-less TDR"⁴ as they charge a fee for density increases, and the revenue is used to fund conservation programs. We identified two density transfer fee programs in Colorado: Gunnison County and the Town of Berthoud. The Gunnison County staffer who developed the fee was formerly at the Town of Berthoud. A DTF has some potential in Brighton, with the limitations noted at the end of this section.

Gunnison County

Gunnison County's program is voluntary and was designed to incentivize developers to take advantage of the ability to add more units to a project without purchasing more land. The program allows a project to reduce its open space requirement by half – from 30 to 15 percent of the project area – by paying a mitigation fee. The program applies Countywide and is a policy tradeoff for landscape scale conservation over local neighborhood open space access.

The fee is 10 percent of the increase in land value before and after the subdivision is approved. The County Assessor provides the appraisals using its mass valuation system, which is used for the semi-annual reassessments and was considered an objective source. The fee can be paid upfront at plat approval, at a 10 percent

⁴ Transfer of Development Rights Innovations and Gunnison County's Residential Density Transfer Program by Mike Pelletier, Rick Pruetz, FAICP, and Christopher Duerksen. American Planning Association, PAS Memo, May/June 2010.

discount or at building permit. If the fee is paid at building permit, the total is apportioned to each lot based on the appraised value.

The program applies countywide and exempts affordable housing. The revenue from the DTF must be used only for acquiring land and conservation easements for permanent preservation. The properties must have significance as open space, farmland, habitat, wetlands, or watershed protection.

Town of Berthoud

Berthoud's program is similar except that it is applied to re-zonings. When land is re-zoned to allow higher density, mostly from agricultural, residential, or transitional zoning designations, the project is subject to the fee. The fee is \$3,000 per single family unit and \$1,500 per multifamily unit. The fee has not been updated since it was adopted in 1999.

If the property is being annexed into the Town, credit is given for each dwelling unit allowed under the prior zoning. One single family credit can also be gained for every acre of permanent space preserved in the project. Land with a deed restriction or conservation easement for agriculture or environmental purposes also qualifies, including property or easements acquired outside the project. Fee revenue must be used solely for open space acquisition and land preservation.

Evaluation

Density transfer fee programs have some advantages over traditional TDR programs.

- **Ease of administration** – Unlike TDR, DTF programs do not require a complex system of tracking TDRs available and sold, and then recording deed restrictions on the sending area land.
- **Potentially less controversial** – DTFs do not require a community to identify sending areas of conservation or receiving areas for density. This avoids several potential conflict points with either landowners whose development potential may be limited, or with neighbors who may oppose additional density.
- **Flexible** – The fee revenue can be spent on any land conservation priority and gives the local governing body discretion on how to spend the money.

Despite these advantages over TDR, the degree to which a DTF will be used is still influenced by the base land use and zoning. If the additional or desired density can be gained through the typical entitlement process or already exists under current zoning or future land use, there will be little motivation to participate in the voluntary program.

Recommendation

A DTF could be considered in areas with Agricultural future land use designations but that are not considered to be high quality farmland or in areas judged to be a lower priority for preservation than HSV. The fee would most likely be applied in an annexation setting in which a developer or landowner is seeking density above the County zoning. The supportive zoning in the Comprehensive Plan for Agriculture is A/R (35 ac. minimum lot size) and RE and AE (20,000 sq. ft. minimum lot size). These are lower density zoning classifications in which developers may be motivated to create additional density through smaller lots. There are approximately 11,000 acres of land with a FLU designation of Agriculture. All of this land is located outside of HSV east of I-76 or north of Highway 7 in Weld County.

While the area east of I-76 is not likely to develop at urban/suburban densities in the near future due to water and sewer infrastructure constraints, establishing a regulatory framework early and ahead of development would allow time for the land market to adjust. The City should consider this approach as a long-term strategy. Similarly, as development pressure moves north into Weld County this could be another tool for preserving farmland.

Another consideration is that the DTF would likely need to be structured purely as a density bonus without a reduction in on-site open space. The City currently requires approximately 25 percent open space in residential developments and gives credit for landscape buffers, detention ponds, or actual open space. There is a fee-in-lieu option if the requirement cannot be met on-site. If the DTF was based on an open space reduction to achieve additional density, the development would be in effect trading neighborhood open space for community open space, which changes neighborhood character. A community process would be needed if open space standards were to be changed. Alternatively, the DTF could be based simply on the density increase.

Farmland Mitigation Programs

Farmland mitigation programs are designed to compensate or mitigate the loss of farmland. They require that an equal or greater amount of farmland be preserved if a project converts farmland to another use. Farmland mitigation programs have been used throughout the U.S. but are most prevalent in California's Central Valley. These programs require that for every acre of farmland converted, a development project must permanently preserve an acre of farmland in another location. The programs can be structured in various ways to favor paying a fee-in-lieu, or to favor acquisition of actual property or conservation easements making it more difficult to "fee out" of the requirement. Mitigation property and/or fee revenue is either held by a government entity or an approved land trust.

Recommendation

Similar to a DTF, a mitigation program could be considered on farmland judged to be of lower priority than the HSV. Projects developing on farmland would be required to either purchase land, conservation easements (with water rights), or pay a fee-in-lieu of acquisition.

While TDR and DTFs are more – but not purely – voluntary in nature, a mitigation requirement would be mandatory. Like a DTF, fee revenue from a mitigation program is flexible and can be used for conservation acquisitions as they arise.

Cluster Development

The District Plan recommends clustering or conservation development as one strategy for preserving farmland in the HSV. Cluster development provides a density bonus for clustering development on a smaller portion of the site, leaving the remainder in farmland. An example given in the County code is a 70-acre site zoned A-3. The property could accommodate two 35 acre lots under current zoning, or six with the current County cluster standards. The District Plan recommends increasing the density allowed under the cluster standards (reducing the lot size to 1 to 5 acres), and to require that at least 50 percent of the site be preserved. Reducing the allowable lot size would increase the number of units allowed, potentially creating more of an economic incentive to use the clustering option. The means for conserving the land should be through a conservation easement, City or County ownership, or land trust ownership at the City's and/or County's discretion depending on land use jurisdiction. In general, there needs to be an assurance that the farmland will be preserved in perpetuity.