



HOME BUILDERS
ASSOCIATION
of
METRO DENVER®

June 26, 2024

Town of Erie
Mayor Justin Brooks
Members of City Council
645 Holbrook Street
Erie, CO 80516

Dear Mayor and Members of Council:

The purpose of this letter is to share our thoughts, concerns and feedback regarding the Town of Erie's proposal to adopt inclusionary housing requirements.

These comments are being provided on behalf of the Home Builders Association (HBA) of Metro Denver. The HBA of Metro Denver represents nearly 500 homebuilders, developers, remodelers, architects, subcontractors, suppliers and service providers in the eight metro-area counties we serve. These comments are focused on the types of homes our members create, which are primarily for-sale, attached, duplex and single-family homes for families and others.

As homebuilders, our members are working every day to create more attainable housing opportunities for today's and tomorrow's residents across the metro area. This important goal comes at a time when our industry is facing a rising number of challenges which ultimately make the cost of building housing more expensive.

It should be noted that the housing affordability crisis is due to a severe shortage of units and is reaching a breaking point in many markets across Colorado – including the Town of Erie. The average annual number of new homes built every year in Colorado since the 2008 financial crisis is 46% lower than the annual average in the eight years leading up to the Great Recession. If Colorado were to return to the average housing population ratio between 1986 and 2008, it would require an additional 175,000 housing units across the state today. To close that gap and meet future population needs, Colorado will need to develop 54,190 new housing units annually over the next five years. Currently, we are nowhere near that level of production.

While we understand the intention of inclusionary housing policies is to make housing more affordable and may feel like a win; however, the reality is these policies typically make housing less affordable - either through lowering supply and/or adding costs that are passed onto other homebuyers in order to keep projects feasible. For example, inclusionary housing policies such as Erie's proposed ordinance will result in a higher cost burden for the higher proportion of new market rate homes, which will become less affordable to build without subsidies or other tools to bring costs down.

In considering Erie's proposed requirements, we request that you consider the following policy changes so as to not stifle the critically needed supply of homes:

Requested policy changes:

- **Reduce the percentage of for-sale units required on site** – The 15% onsite affordable requirement at 120% AMI (including a quarter of those at 100% AMI) is far too high for builders and will significantly curtail future residential development in Erie. If the town is absolutely committed to passing inclusionary requirements, 10% onsite affordable at 120% AMI would be a more reasonable number and will help ensure that the future affordable units envisioned by the ordinance actually get built.
- **Reduce the percentage of rental units required on site** – Similarly to the proposed for-sale percentage, the 15% onsite affordable requirement for rental units at 80% AMI (including a quarter of those at 60% AMI) is also way too high and will significantly curtail badly needed rental opportunities in Erie. This number also needs to be reduced significantly to ensure future rental development isn't prohibitively incumbered.
- **Create a clear effective date for compliance and exemptions** – Any inclusionary housing ordinance should apply to new applications only and have a clear effective date. All projects in the pipeline with submittals before the effective date that have been operating under existing laws and regulations should be exempt in order to provide clarity and consistency for builders.

Further, to help with the added costs inclusionary housing requirements have on home building (and ultimately passed onto to aspiring homeowners), the HBA requests Erie explore and adopt appropriate incentives and offsets, as we know that only raising costs on builders without any carrots is not going to work. As it relates to Erie's specific proposal, we ask that you consider the following:

Requested offsets and incentives:

- **Create dedicated affordable housing revenue** – Consider other, dedicated funding sources to help subsidize the creation of affordable housing. It is unreasonable to expect future homeowners of market rate units within new developments to have to absorb all of these costs, or builders to take a loss when seeking to develop sorely needed residential housing projects. Looking at a percentage of the Town's sales tax or a potential recreational marijuana tax, implementing real estate transfer fees on existing homes, and/or leveraging development impact fees on commercial development—which has been proven in nexus studies to drive the demand for housing—are all ways to help broaden the base and make subsidizing an IHO more sustainable and equitable.
- **Implement fee waivers** – Consider waiving impact fees for all of the required affordable units within a development to help offset costs. Providing flexibility and waiving impact fees can be a valuable tool to help offset these new costs to the builder, and subsequently increase affordability overall for future home buyers.
- **Flexible urban design offsets** – Consider utilizing flexibility in design regulations to help projects building with affordable units happen. This includes incentive tools such as reducing the percentage of applicable open space requirements, increasing height incentives for 2-3 story townhome projects, as well as reduced parking requirements and raw water incentives to create more flexibility and feasibility for residential projects moving forward.

In summary, while we recognize why the Town of Erie is considering a proposal like this, we believe it is important for Town officials to work cooperatively with the residential development community to avoid unintended consequences and provide adequate incentives and support. The increased costs from this proposal—

especially as currently drafted—will be significant, so it is imperative the Town do everything possible to minimize these impacts, recognizing they will ultimately be shouldered by aspiring residents of Erie.

The HBA of Metro Denver welcomes and encourages additional opportunities to participate in this policy dialogue and we hope revisions from the first round of formal public input will take this letter into account as well as others received by the development community. While there are many ways to approach affordable housing, a mandatory inclusionary ordinance that solely targets new development will end up doing more long-term harm than good from an overall cost of housing perspective. An alternative approach would be a voluntary program that the development community could opt into to qualify for certain incentives or subsidies. Another option could be to broaden the base of who is paying and contributing to this public good so all (or more) Erie residents and businesses are helping to support the viability of an affordable housing program and not just those who happen to be purchasing a new market-rate home.

Thank you for the opportunity to continue to participate and provide meaningful stakeholder input. Please don't hesitate to contact the HBA with questions or for further discussions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ted Leighty".

Ted Leighty
Chief Executive Officer
Home Builders Association of Metro Denver

CC: Malcolm Fleming, Erie Town Manager
Sarah Nurmela, Director of Planning & Development
MJ Adams, Affordable Housing Manager