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HOME BUILDERS
ASSOCIATION
of
METRO DENVER®

October 26, 2022

City of Littleton
Mayor Kyle Schlachter
Members of City Council
2555 W. Berry Ave.
Littleton, CO 80120

Dear Mayor and Town Council:

I am writing to share our thoughts, feedback and concerns regarding the City of Littleton's proposed Inclusionary Housing Ordinance.

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.

Before going into specifics regarding Littleton's proposed ordinance, it should be stated that our members are working every day to try and create more attainable housing opportunities. This comes at a time when our industry is facing a growing number of challenges and priorities which share an unfortunate outcome – **all make the cost to build housing more expensive.**

First, it should be noted that the housing affordability crisis in Colorado is due to a severe shortage of units and is reaching a breaking point in many markets across Colorado—including the City of Littleton. 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 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.

Additionally, the cost of building a house is at an all-time high. Cost of materials/labor, building and water fees, and supply chain shortages have led to massive cost increases for each unit our members try to construct. From lumber and concrete, to paint, copper, and gypsum – the primary materials used in homes – building costs are already prohibitively expensive and are projected to remain high for the foreseeable future. Lumber alone, while it has come down from its record high, is still roughly twice as high as it was in April 2020, adding \$29,833 to the price of an average new single-family home and an additional \$92 in monthly rent. The price of oriented strand board (OSB) has gone up nearly 500%.

Furthermore, housing attainability across the front range has only become more elusive given our recent environment of rising interest rates coupled with rampant inflation. Mortgage rates have increased from 3.1% at the start of the year to 7.24% as of late October – making it the largest magnitude increase for mortgage costs in decades.

Before we lay out some of our recommendations, we want to emphasize that building new housing does not create affordability problems. In actuality, building new housing (especially in a housing supply crisis) does the opposite. Building all types of housing creates a pipeline of supply and brings balance in the housing market that has been severely undersupplied in Littleton and across the Denver Metro Area. While the creation of new commercial space and primary jobs creates additional demand for housing, it is the residential construction industry that ultimately bears the cost burden.

It is in this context that we wish to share our concerns regarding Littleton’s Inclusionary Housing ordinance, which fall into three categories:

1. The overall negative effect on housing affordability caused by adding higher costs on housing projects and the making it harder for a project to remain viable.

Again, this comes at a time when the various costs being placed on the home building industry is at an all-time high. While we do understand Littleton’s desire to increase affordability, the result of this policy will place a higher cost burden on the majority of market-rate homes (95%) which will become less affordable to build without subsidies or bringing costs down. Whether it is through higher prices of market rate units to make up for the added cost of constructing the required percentage of below-market units, or the fee-in-lieu option, both options involve additional cost increases which will be borne by market rate homebuyers. It is important to note that for every dollar increase in cost, a builder needs to raise the price by more than that to cover the corresponding increases in commissions, closing costs, financing costs and other costs.

2. The lack of meaningful incentives offered - due to the reality that certain projects simply won’t be eligible for the options provided and others that have already been designed and planned, will not be authorized without going through the costly and time-consuming process of a resubmittal.

3. The lack of an effective date or grandfathering clause that recognizes projects that have not only submitted plans well in advance of this ordinance but have already completed the platting process - would be unfairly impacted.

Typically, with ordinances like these, jurisdictions will attempt to insulate projects that have already completed a lengthy approval process which pre-dates adoption of the ordinance. This helps to expedite the continued creation of much needed housing, while respecting the substantial financial commitments made by the development community within the municipality. Failure to do so can often have a chilling effect on future development because builders will no longer want to invest in a community where the basic tenets business fair-dealing are not respected.

Given that the Home Builders Association of Metro Denver is currently working in 8 counties and 35 different municipalities across the metro area and has direct experience in inclusionary policy in particular, we felt it was important to provide our feedback and suggestions for improvement before the Public Hearing and Council’s vote next week.

The HBA of Metro Denver recommends the City consider the following suggestions and improvements to the proposed ordinance:

Under Tier 1 Inclusionary Housing Incentives:

(a) *The City shall expedite any application seeking to provide affordable housing as set forth in this Chapter.*

Suggestion: As defined, this incentive lacks any real specificity or definition. We suggest defining what expedited plan review means. For instance:

- 1st Submittal: 3-week turnaround
- 2nd Submittal: 2-week turnaround
- 3rd Submittal: Check-set 1-week review

(b) *Required Parking as set forth in the City's land use code may be reduced by an additional twenty-five percent (25%) for those projects within one-quarter mile of a transit station.*

Suggestion: Expand this incentive to 1-mile for light rail or ½ mile from bus stop. The Unified Land Use Code (ULUC) adopted by Littleton in 2021 includes provisions for parking reductions close to bus stops and light rail.

(c) *Open Space requirements as set forth in the City's land use code may be reduced ~~up to~~ by fifty percent (50%) if the location is within one-half quarter mile of a City park or designated open space with no need to demonstrate hardship.*

Suggestion: see redline above.

(d) *An allowable increase of fifteen percent (15%) in dwelling units per acre for single family, multi-family, duplex, and townhome projects for all residential districts.*

Comment/Suggestion: It is a little unclear what is meant by "residential districts." The ULUC does not define residential districts per se and has other mixed-use and corridor districts (see below). The Inclusionary Housing ordinance defines "Residential development as the development of single-family detached residences, townhomes, duplexes, condominiums, apartments or multi-family dwellings as those terms are commonly understood or defined under the City's unified land use code...".

So long as the definition for residential districts/development applies to wherever residential development occurs, including the ULUC's zone districts below, this is okay.

Permitted House Type by Zone District Without Special Review

SFD: *Neighborhood Commercial, Acreage Residential, Large Lot Residential, Medium Lot Residential, Small Lot Residential*

Multi-family: *Corridor Mixed*

Duplex: *Corridor Mixed*

Townhome: *Corridor Mixed*

Under the ULUC the land splits between residential/commercial mixed-use neighborhoods seem largely discretionary by Staff. There is no certainty that a 15% increase in density would yield as many residential units if staff views commercial as more beneficial in a mixed-use district.

(e) *Administrative adjustments as set forth in the City's land use code to allow for twenty five percent (25%) reduction on minimum lot requirements as opposed to the current ten percent (10%).*

Comment/Suggestion: Minimum "lot requirements" are not defined in Littleton ULUC.

We suggest a 50% reduction of setbacks. Currently, the ULUC rear setbacks do not support denser alley loaded product (10'). The minimum lot sizes and widths are reasonable in the ULUC, but a 25% reduction of those would allow for more density and product flexibility.

(f) *Permit fee rebate of \$2,500 per unit for affordable units built not to exceed fifty percent (50%) of the total city permit fee obligation.*

Suggestion: It would be more meaningful to waive impact fees, which for SFD is \$7,188.15 and Multi-family is \$4,983.97. Especially because impact fees can continue to rise, essentially rendering permit fee rebates less meaningful.

Additionally, here are a few other points of feedback and suggestions:

- The study session held on August 9, 2022 discussed expedited rezoning from commercial to residential for Tier 1 Inclusionary Housing.
Suggestion: It would be meaningful if this were included.
- For a phased development that finds it economically infeasible to redesign their site plan and go back through the approval process by the time the ordinance is adopted, does not waive its ability to seek Tier 1 incentives with future phases.
- Allow a fee in-lieu payment over the life of the development, versus all as one lump sum. Also, the fee in-lieu is so hard to make work economically that it doesn't really serve as a viable option. We recognize the fee is not the preference but making it so high limits options and doesn't help with the overarching goal of creating more housing.
- The Tier 2 incentive category seems unrealistic in our opinion. It is nearly impossible for a project to be more than 50% affordable units without public subsidy. We think an enhanced menu of incentives could be achieved for projects at a more realistic level of affordability, such as 15 or 20%, as opposed to 50%.

Lastly, we urge the City and City Council to consider a proper effective date and/or grandfathering clause that allows projects that submitted applications long before this ordinance was formally introduced to not be subject to this ordinance. If we understand the ordinance and its effective date correctly, a project that is already platted would be subject to these new requirements, when in actuality these projects take a long time to design and go through the City's planning and review process. This makes it very difficult and prohibitively expensive to absorb these significant impacts at such a late stage in the development process. It also, makes it nearly impossible for the development to utilize any of the incentives offered within the ordinance to help offset these costs. It is often the standard practice of other jurisdictions to have such a grace period when considering the implementation and effective date. In fact, the City of Denver provided an effective date and ample notification to the development community with the passage of its IHO ordinance earlier this year.

In summary, while we recognize why the City of Littleton is considering a proposal like this, we believe it is important for City officials to work earnestly with the residential development community to avoid unintended consequences and provide adequate incentives and support. The increased costs from this proposal will be significant, so it is imperative the City do everything possible to minimize these impacts, recognizing that they will ultimately be shouldered by aspiring homeowners within your community.

The HBA of Metro Denver would also like to express its disappointment in the lack of dedicated outreach to the building community. We had to find out about this ordinance through Council agendas, not through any outreach from City staff or consultants. Given the significant impact this will have on future development, we would have preferred to provide input at an earlier stage and not immediately in advance of the public hearing. Previously, the HBA has played an integral role in shaping similar ordinances in other jurisdictions and would have appreciated the opportunity to do so in Littleton as well. That said, we are hopeful you will take the time to consider our feedback and suggestions and allow for ample stakeholder input before this ordinance is finalized.

Thank you for the opportunity to share our thoughts on this issue and we hope it will lead to further discussion between the City and the HBA.

Please don't hesitate to contact us with questions. We are always available for further consultations with staff as necessary.

Thank you for your time and consideration of this matter.

Sincerely,

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

Ted Leighty
Chief Executive Officer
Home Builders Association of Metro Denver

Cc: Jim Becklenberg, City Manager
Kathleen Osher, Director of Community Services