



HOME BUILDERS
ASSOCIATION
of
METRO DENVER®

August 1, 2023

City of Centennial
Mayor Stephanie Piko
Members of City Council
13133 E Arapahoe Rd. Centennial, CO 80112

Dear Mayor and Members of Council:

The purpose of this letter is to share our thoughts, concerns and feedback regarding the City of Centennial's proposal for mandatory affordable 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.

Before going into specifics regarding Centennial's proposed policy, 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.

Our concerns with inclusionary housing policies, such as the one being considered by Centennial, fall into the following categories:

(1) Overall Negative Impacts to the Housing Market - The negative impacts to overall housing affordability and supply caused by shifting higher costs onto newly developed market rate units will only exacerbate housing affordability. While we understand Centennial's desire to increase affordability, the result 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.

(2) Disincentives to Produce Affordable For-Sale Units - The disincentive to build for-sale units due to new ownership units having deeper requirements of affordability that are not economically feasible. This disincentive is exacerbated by Colorado's construction defect laws. In short, setting for-sale requirements at 80% AMI is financially infeasible for many single-family and attached developers, and will do little to actually produce affordable, for-sale units in Centennial. Rather, Centennial should look at setting this for-sale target closer to more of the missing middle-income brackets which are desperately needed in the metro area – ranges closer to 120% AMI, or those that are more financially feasible to provide for a large swath of potential homebuyers. For

example, the Town of Erie is considering setting AMI targets at 120% for for-sale product, as this is a critically important housing type in the Denver metro area.

(3) Lack of Program Incentives and Offsets – The proposed policy unfortunately has a lack of meaningful incentives and/or trade-offs to help create much needed “missing middle” for-sale housing units in the ranges of 80-120% AMI and beyond. For example, the incentives in the policy proposal today do not adequately off-set the costs of the program’s requirements for many members of the development community, and we would encourage more flexibility and streamlined project review procedures (including removal of the design review board process) to help offset additional costs and expenses that are simply passed onto consumers in these types of policies.

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 City of Centennial.

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.

If Centennial had more housing, and more housing types (something we fear this proposal does not adequately address), our affordability challenges would look much different. But currently and for the past 15 years, the amount of available housing supply within the City has fallen drastically short of the amount of demand. Moreover, we cannot stress enough that policies such as this will shift the cost burden onto other market rate units. Whether it is the higher prices of market rate units to make up for the added cost of constructing the percentage of below-market units, or the fee-in lieu option, both options involve substantial cost increases which will be borne by buyers of market rate units.

While we understand the underlying intent of inclusionary housing ordinances, we need to be mindful of the unintended consequences they can bring to a community. For every dollar increase in costs, 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. Additionally, banks and investors expect builders to have some return on every dollar of cost – costs that are ultimately born by home buyers, renters, and other residents simply wanting to live and work in Centennial.

In summary, while we recognize why the City of Centennial 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 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 harm than good. Perhaps an alternative approach would be a voluntary program that the development community could opt into to qualify for additional government incentives or subsidies. Another option could be to broaden the base and make sure all Centennial residents 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,



Ted Leighty
Chief Executive Officer
Home Builders Association of Metro Denver

CC: Matt Sturgeon, Centennial City Manager
Melanie Ward, Manager of Development Foresight and Infrastructure