

A Builder's Perspective on Affordable Housing and IZO

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The Need for Affordable Housing in Our Communities



Households earning 60% to 80% AMI

- State-wide Data*
 - 42,354 of 71,787 renter households would like to become homeowners.
- Denver Data**
 - 7,275 of 12,330 renter households would like to become homeowners.

*Colorado Division of Housing, 2001

**HANDS 2004 for renter households. FNMA 2001 for % desiring homeownership

Builders Support Workforce Housing

Builders favor:

- Allowing private builders to access affordable housing resources.
- The reduction of regulatory barriers.
- Joint ventures with governments and nonprofits.
- Realistic levels of public funding to seriously address the affordable housing issue.

Builders Support Workforce Housing



Builders Favor:

- The expansion of homeownership for as many people as possible, including those with low incomes.
- Decreasing the cost of housing.
- Economic development in our communities.

Impact of 100 New Homes in Denver

The estimated one-year metro-area impact of 100 new single family homes in the Denver metro area include:

- \$17.5 million in local income
- \$4.0 million in taxes and other revenues for local governments and
- 306 local jobs.



What Do Builders Oppose?

Builders oppose mandates that unfairly burden builders and their customers.



Local Governments Assume Responsibility for Affordable Housing

Shrinking resources, rising demand

- Reduced federal and state government resources
- Reduced nonprofit resources
- Local budget crises
- Increasing demand for affordable housing

Local Governments Shift the Burden to Builders

The search of "off budget" resources

- Financial burden to address the need for affordable housing has shifted to home builders.
- In response to the need of affordable housing and to develop consistent policy, local governments have instituted inclusionary zoning or inclusionary housing ordinances (IZO).

How Do Builders Respond?

There is no “free lunch”

- Builders must maintain economic viability for each project or:
 - The project fails
 - The Builder fails
 - The project doesn't happen
- The “GAP” has to come from somewhere



Filling the GAP

Let's raise prices!

- Let your market rate buyers pay more
 - Will the market allow it?
 - Is it fair?
 - It makes housing more expensive.



Filling the GAP

Let's raise prices!

- If raising prices works it increases the overall cost of housing.
- Is **THAT** what we are trying to accomplish?

Filling the GAP

Let's lower profits.

- Those fat cat builders can afford it, or can they?
 - Average pretax margin for public builders is 5%-6%
 - They can't attract debt or equity if projects don't "pencil"



Filling the GAP

The lower profit scenario

■ Project Size	100 Units
■ Market Value Per Unit	\$170,000
■ IZO Unit Sales Price	\$140,000
■ Discount for IZO Unit	\$30,000
■ Percent Discount	17.65%
■ Profit Margin per Market Rate Unit	5.6%
■ Profit per Market Rate Unit	\$9,520
■ Total Profit on Market Rate Units	\$856,800
– 90 Units at \$9,520	
■ Percent Profit Reduction due to IZO	35%

Filling the GAP

If lower profits are the answer

- Fewer projects will be feasible.
- Fewer builders will participate.
- Fewer homes will be built.
- Is **THAT** what we are trying to accomplish?

The Effect on the Homeowner

Are restrictions on conveyance good or bad?

Deed restrictions on price escalation

- Stigmatize homes
- Deprive low income residents of appreciation
- Increase the GAP in order to sell the affordable units.
- Is **THAT** what we are trying to accomplish?

IZO is Misguided for Many Reasons

- The success of IZO assumes that demand is so strong that builders can price market rate housing at a level sufficient to subsidize the workforce units.
- IZO's success also assumes that builder profit margins are sufficient to provide the subsidy needs to sell deed restricted IZO units.
- It is unfair for our buyers or our industry to bear the burden of solving a societal problem.

IZO is Misguided for Many Reasons

- IZO could drive the price of market rate housing higher than normal market rate forces would otherwise do.
- IZO ordinances frequently require a restriction on conveyance on workforce housing units that restricts the amount that the homeowner is allowed to make on resale and increase the GAP.

What can be done to make IZO palatable to builders and more effective?

- Deed restrictions could be relaxed to allow residents to benefit from at least a portion of home price appreciation.
- Society should provide the source of funds for the subsidy required to deliver the unit.
- Incentives should make the bottom line on an IZO project equivalent or better to a non-IZO project.