RE: A Letter Related to the Economic and Fiscal Impacts of Proposed Initiative #66, "Limit on Local Housing Growth."

Submitted to:
Colorado Legislative Council

Submitted By:
Colorado REMI Partnership
Christopher Brown
Director of Policy and Research
chris@commonsensepolicyroundtable.com
(720)443-3972

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Dear Legislative Council Staff,

The REMI Partnership is a Colorado based collaboration of public and private organizations announced in July 2013 to provide Colorado lawmakers, policy makers, business leaders, and citizens, with greater insight into the economic impact of public policy decisions that face the state and surrounding regions. The parties involved include the Common Sense Policy Roundtable, the Colorado Association of REALTORS, Colorado Concern and the Denver South Economic Development Partnership.

Along with this letter describing a summary of findings and a methodology related to estimating the economic and fiscal impacts of proposed initiative #66, "Limit on Local Housing Growth" we will also be submitting an associate excel with the calculations discussed in this letter and our previous study, *Building Gated Cities* which evaluated a similar initiative in the City of Lakewood.

Our analysis focuses solely on the economic and fiscal impacts related to forgone economic growth. There would also be direct administrative costs to create the necessary oversight and enforcement of such a restriction. As residential zoning and permitting is done at the local level, an outstanding question is how much additional resources would need to go to establishing the authority and ability to create a system that would restrict growth across an entire county.

We would welcome any questions on the issue as you prepare the necessary estimates ahead of next Wednesday's title board hearing.

**Key Findings:**

1. Since 2010 vacancy rates across all 10 counties have fallen significantly, while at the same time, the proportion of new housing units added for every new household grew significantly. In some counties that annual figure grew to more that 100%, meaning the counties needed to add additional supply beyond the single years growth.
2. As vacancies rates have declined, and housing supply has increased, housing prices have continued to soar, suggesting that demand has outpaced supply. Housing price increases have also significantly outpaced income, historically the primary predictor of home values, as the 5-

county Denver metro has seen median home prices go up 70% while median household income has only increased 10% since 2009.

3. A 1% cap on housing units would reduce the two-year growth in new residential housing by 42%. That would equal 26,050 fewer units over two years.
4. If you were to assume the per-unit residential construction investment cost to be $200,000 or $300,000 that would equal $5.2 Billion to $7.8 Billion. Through a simulation using PI+ developed by REMI, losing $7.8B over two years would reduce the construction industry employment by just under 10%, and potentially cause near flat year-over-year employment growth statewide. It would also cost just over $353,000,000 in state revenue between 2019 and 2020 due to the dynamic impacts from the lost construction alone.
5. While our previous work on the city of Lakewood found that it could likely be that much of the city's forgone growth would be taken up by another jurisdiction in the region due to existing commuting patterns, it would not be the case that housing units and households could be displaced throughout the rest of the state given an inability to commute to employment centers within a reasonable amount of time. As such, beyond the loss in residential investment, the additional significant pressure on housing prices, the labor force would likely shrink and there would be less employment growth due to smaller population.
6. The impacts to housing prices would come due to reduced supply as well as through higher construction costs. In doing the research for the Lakewood study, it was our finding that contrary to a smooth 1% growth in residential units each year, development occurs in a non-linear manner. This is due to fact that new developments, particularly larger multi-family units obtain multiple building permits in a year, and then build out according to financing and demand. Any delays to the ability to obtain the adequate number of permits for a new development, particularly multifamily, would significantly increase costs that would likely be primarily passed to residents.
7. More broadly, an across-the-board cap would undermine the currently established priorities and plans of the region and local jurisdictions. As stated in DRCOG's Metro Vision and echoed in most community's citizen led comprehensive plans, to preserve the quality of local communities and not strain resources, including transportation networks, additional housing growth need to occur along transit corridors at higher densities. A 1% growth cap would not prioritize development in areas which would alleviate future issues around transportation, water, energy demand among other infrastructure needs. Similar to finding #6, if developers could not obtain the full number of units desired for any particular project, and to the extent the financing was prohibitive to delay construction on a site, they may choose to build fewer units which would reduce density of units and would further undermine the region's development goals.

**Methodology to Establish Lost Residential Growth**

It is likely the case that beyond 2020 multiple jurisdictions would maintain the 1% cap, however in the absence of making explicit assumption to the effect, here would be a framework to understand the impacts in just the years 2019 and 2020.

Through using data from the Office of State Demographer, we could determine the difference between what residential housing growth is projected to be, against what a 1% growth cap would be.

I. Establish a business as usual case
   a. First determine a two-year average (2015-2016) for the ratio of housing units to household growth across each of the 10 counties falling under the cap. This way we reflect the rate at which housing units grow relative to households, given the state demographer produces only household annual projections.
   b. Multiply that two-year average by the projected household growth by county to determine the housing unit projection.

II. Establish a 1% growth case
   a. Grow the last history year 2016 by 2017 and 2018 household growth rate. This is a generous assumption as housing units grow more slowly that households. Then apply a 1% growth rate for 2019 and 2020.

III. Determine the forgone residential growth
   a. Subtract the 1% growth baseline from the business as usual case.

There certainly could be alternative approaches including pulling actual local permit data. A similar projection could be developed by determining the ratio of permits to annual household growth in the history data and use similar ratio on county projections.

As this issue would significantly impacts all Coloradans we expect to continue to study this issue and will update you with any additional findings.

Thank you for your consideration.

Sincerely,

Chris Brown

chris@commonsensepolicyroundtable.com
720-443-3972