



MEMORANDUM

To: Ariel Tolefree and Sarah Nurmela, Town of Erie

From: Eric Ameigh and Thomas Eddington, czb

RE: Affordable Housing Needs Assessment and Strategy – Preliminary Analysis

Date: September 9, 2022

Executive Summary

This memo to Erie Town Staff contains preliminary analysis and framing information related to the Town's Affordable Housing Needs Assessment and Strategy. The Assessment and Strategy is funded by a grant from the State Department of Local Affairs and will provide analysis and strategic options for the Town's future efforts to increase its amount of permanently affordable housing, in accordance with its adopted 12% goal stemming from the Town's participation in the Boulder County Regional Housing Partnership. The Assessment and Strategy will be the subject of discussion at a study session on September 20, 2022 and it is expected that this memo will be provided to the Board of Trustees as supporting information.

Existing Housing

The Town of Erie has limited affordable housing opportunities, compared to the surrounding region. The Town of Erie lacks housing diversity, both in type and tenure. Nearly 90% of all Erie housing units are single-unit detached houses and 85% of all Erie households are homeowners. Purchasing a single-unit house, Erie's dominant housing type, typically requires an income of at least \$150,000 depending on a number of variables. Increasing affordability in Erie will require the Town to have more rental options than it currently has and more ownership opportunities at prices lower than what the prevailing market dictates.

In Erie, approximately 81% of the housing stocks are single-unit detached ownership and just 15% of units are rentals of any kind. The single-unit detached opportunities are also expensive, with a median sale price of \$800,000 as measured within the first half of 2022. This means new households in Erie typically need incomes of \$150,000 or more to afford the Town's median sale price. This income exceeds the Area Median Incomes (AMI) of both Weld County and Boulder County of approximately \$100,000 and \$125,000, respectively, as reported by the U.S. Department of Housing and Urban Development (HUD). For reference, although HUD does not report AMI in the same way specifically for Erie, we estimate it to be approximately \$140,000.

The Town has no deed-restricted permanently affordable housing, generally defined as housing limited to households with incomes below 80% of the area median. This is not to say that the Town does not currently have any naturally-occurring affordable housing available in the marketplace. Our research indicates, for example, that the Town *may* have as many as 500 ownership units affordable to incomes at 80% of the Boulder County area median income, but *this conclusion is provisional pending further analysis*. Among that number are approximately 50 mobile homes.

Moving Forward

The Town's goal of 12% permanently affordable housing by 2035 will be difficult to achieve considering that it has no permanently affordable housing today. If the Town adds new housing units at an annual pace similar to that of the past two decades, over 30% of all new housing units would need to be permanently affordable in order to meet the goal by 2035.

Moving forward, the Town may consider a handful of tools for increasing the production of affordable housing, including but not limited to:

- Inclusionary housing ordinance, in which developers are required to produce some percentage of units as affordable housing under rules set by the Town.
- Financial incentives for affordable housing developers in the form of direct cash assistance and/or considerations such as certain fee reductions or rebates.
- Regulatory changes to create densities better able to support affordable housing, especially affordable rental housing. Such changes can improve economies of scale that facilitate properly functioning inclusionary housing ordinances and/or enable affordable housing developers to lower development costs per unit.
- Below-market sale or transfer of publicly-owned land for the purposes of affordable housing development.
- Affordable homeownership program(s) using various means, such as down payment assistance, deed restrictions, and/or a potential land trust where a public or nonprofit entity controls the underlying land to control disposition of the home.

Introduction and Background

The greater Denver-Boulder region has been an expensive housing market for some time. This is especially true in Boulder and Boulder County. The Town of Erie, which has some of the newest housing stocks in the region and an unusually low proportion of rental units has recognized that each community in the region has a role to play in increasing the regional supply of affordable housing.

The Boulder County Regional Housing Partnership, which Erie joined in 2020, set a 2035 goal to establish 12% of the region's housing inventory as permanently affordable. In 2021, the Erie Board of Trustees adopted Resolution 21-140 to ensure that 12% of the Town's housing stock would be affordable by 2035. In 2022, the Town retained consulting firm czb to assist with an Affordable Housing Needs Assessment and Strategy. The process and resulting report will provide Erie with the information and analysis needed to more firmly establish affordable housing goals and begin taking action.

Affordability Context

There is no debate that housing has become expensive in the region by any objective measure. The challenge is regional, not just local to Erie. However, before Erie can figure out where it is going, it needs to understand its starting point. How is Erie doing when it comes to affordability? What is happening in the region's housing market and how does Erie compare?

What does it mean for housing to be “affordable”?

By federal government definitions, housing is considered “affordable” when it costs less than 30% of a household's gross income, and those spending 30% or more on housing are considered “cost-burdened” which means housing is no longer affordable. Because the metric is a percentage, and not just an absolute number, affordability is relative, as illustrated in Table 1 below.

Table 1. Examples of Affordable Housing Costs by Income

Household Income	Can afford up to this much each month	Can afford up to this much each year
\$50,000	\$1,250	\$15,000
\$75,000	\$1,875	\$22,500
\$100,000	\$2,500	\$30,000
\$150,000	\$3,750	\$45,000

Erie's Existing Housing Offerings: Mostly Single-Unit Detached Ownership

Relative to the region, Erie is dominated by single-unit detached houses, as shown in Table 2 below. This is the largest, most land-consumptive housing type which means, all things being equal, it is almost always the most expensive. In addition, the Town features relatively few rental units.

Table 2. Tenure and Single-Unit Detached Housing, 2020

	Weld Co.	Boulder Co.	Broomfield Co.	Erie
Percent of Occupied Units that are Single-Unit Detached	76%	63%	63%	88%
Percent of Occupied Units that are Owner-Occupied	75%	64%	69%	85%
Percent of Occupied Units that are Renter-Occupied	25%	36%	31%	15%

Source: 2016-2020 ACS Five Year Estimates

As of 2020, the Town had an estimated 7,842 single-unit detached houses and an estimated 649 of them were renter-occupied. Of an estimated 1,299 total renter-occupied units, fully half were found in single-unit detached houses that were almost certainly originally built for owner-occupancy. This fact reinforces just how few housing units have been built in Erie expressly for rental purposes. See Table 3 below for additional detail.

Table 3. Distribution of Occupied Housing Units in Erie by Type and Ownership/Rental Status, 2020

	Owned	Rented	Total
Single-Unit Detached Houses	7,193	649	7,842
All Other Units (Duplex, Townhome, Apartment, etc)	420	650	1,070
Total	7,613	1,299	8,912

Source: 2016-2020 ACS Five Year Estimates

Affordability Challenges for Single-Unit Detached Ownership

The reason Erie's largely single-unit detached stocks impact affordability is because the stocks themselves are expensive. Single-unit detached house prices have risen steadily in the region in recent years, and Erie is no exception. Table 4 below shows the increase in Median Sale Price between years 2021 and 2022.

Table 4. Single-Unit Detached Median Sale Price, First Six Months of the Year, 2021 vs 2022

	2021	2022
Erie	\$685,000	\$808,000
Boulder County	\$795,000	\$900,000
Broomfield County	\$630,000	\$690,000
Weld County	\$430,000	\$498,950

Source: MLS via Colorado Association of Realtors

The income required to purchase a home varies, depending on many factors, including down payment, credit score, and interest rates. It is generally understood that a ratio of annual income to purchase price should be 3:1 to be considered affordable. Depending on individual buyer circumstances, down payment, etc., the ratio could go as high as 4:1 while remaining affordable. As a rule, however, it is fair to say that a buyer household, with few exceptions, should plan to spend in excess of \$600,000 for a detached house in Erie and such a purchase price will require *at least* a \$150,000 annual household income. (This analysis makes no attempt to predict how a shifting interest rate environment in 2022 and beyond, or any other macroeconomic factors, will impact single-unit detached house prices.)

An additional challenge to affordability in Erie is that it lacks lower-priced ownership opportunities relative to the region. Compared to Weld and Broomfield Counties, a smaller proportion of the Town's ownership units are estimated to be valued at less than \$500,000. This includes all detached houses, townhouses, and condos. Ownership units below this value become affordable to households with incomes less than \$150,000. The Town's proportion of units estimated to be valued in this range as of 2020 is similar to Boulder County's, however, as shown in Table 5. (While this data source is comprehensive and beneficial for comparison between jurisdictions, it should be noted that values are self-reported and the data itself is dated. As such, it is sensible to assume that the true percentage of owner-occupied units valued at less than \$500,000 is likely smaller across the region at the time of this writing than is reported here.)

Table 5. Percent of Owner-Occupied Units Valued at \$500,000 or Less, 2020

Weld Co.	Boulder Co.	Broomfield Co.	Erie
84%	46%	58%	48%

Source: 2016-2020 ACS Five Year Estimates

Affordability Challenges for Renters

For those households who cannot or choose not to become homeowners, Erie provides limited rental alternatives. Only 15% of Erie's housing units are estimated to be rentals, far below the proportion in surrounding counties. Among this relatively small number of rentals, the lack of availability is especially acute for households with incomes below \$75,000—among Erie's limited rental offerings, very few are estimated to be affordable below that level. Across the rest of the region, as of 2020, estimates suggested that renter households with incomes of less than \$75,000 could hope to access roughly a quarter of all housing units. In Erie, they could access only 3% of all housing units (Table 6). The annual income figure of \$75,000 is an important breakpoint in Erie, as can be seen later in Table 7, as the demarcation between those who struggle greatly with affordability and those who struggle far less, or not at all.

Table 6. Percent of Units that are Affordable Rentals, by Income, 2020

	Weld Co.	Boulder Co.	Broomfield Co.	Erie
Percent of all occupied units that are rentals affordable at annual household income of \$50,000	16%	12%	5%	1%
Percent of all occupied units that are rentals affordable to annual household income range of \$50,000 - \$74,999	8%	17%	21%	2%
All other units of all types, owner-occupied and renter-occupied	76%	71%	73%	97%

Source: czb analysis of data from 2016-2020 ACS Five Year Estimates

Affordability for Existing Erie Households

The information presented thus far paints a general picture for any household that may consider locating in Erie. But what is the status of households already living in the Town? How many households, whether they are owner- or renter-occupied, are facing affordability challenges?

When households pay 30% or more of their gross income toward housing costs, they are considered “cost burdened.” Generally speaking, rates of cost burden are lower in homeowners because mortgage underwriting practices help to guarantee that buyers will not buy more house than they can afford. This system can of course be impacted by life events such as job loss, divorce, or retirement, that lower household incomes without lowering monthly housing costs. Renters generally are more susceptible to cost burden because rents can reset at the end of lease terms even if household income does not increase accordingly. Erie is so dominated by homeownership that it would be reasonable to expect a low rate of cost burden amongst its households. In point of fact, however, nearly 1 in every 4 Erie households was estimated in 2020 to have been paying 30% or more of its income toward housing, as outlined in Table 7 below. Again, the rates of cost burden are clearly higher amongst owners and renters with incomes below \$75,000 than for those with incomes above that level.

Table 7. Cost Burdened Households by Income and Tenure, 2020

Income Range	Owner-Occupied Households			Renter-Occupied Households		
	Households	Paying 30% or More	Percent Paying 30% or More	Households (Paying Cash Rent)	Paying 30% or More	Percent Paying 30% or More
Less than \$20,000	150	150	100%	145	145	100%
\$20,000 to \$34,999	297	195	66%	150	150	100%
\$35,000 to \$49,999	309	167	54%	92	92	100%
\$50,000 to \$74,999	624	312	50%	184	96	52%
\$75,000 or more	6,215	579	9%	635	227	36%
Total	7,613	1,403	18%	1,206	710	59%

Source: 2016-2020 ACS Five Year Estimates

Future Considerations: Defining Housing Needs, Goals, and Program Parameters

This memo speaks to preliminary analysis and framing, and does not firmly define housing needs, goals, solutions, or specific parameters that will be better defined during future discussions. The information that follows is meant to inform and prompt thought for staff and other readers of this memo, including but not limited to the Board of Trustees, stakeholders, and the general public. Further discussion about the scope and scale of housing challenges in Erie

and how they affect the Town's long-term goals—economic vitality, community diversity, resilience, etc.— might lead to a more narrowly targeted strategy.

Thinking about “Housing Needs”

The determination of “housing needs” can be accomplished using a variety of methodologies, depending on how a community views the issue of housing. Any credible consultant should share the following caveats when it comes to calculating such figures:

1. There is no such thing as objective “housing needs.” Needs are subjectively defined, based on the nature of the problem(s) a community is hoping to solve.
2. Any calculations and resulting projections are based on a number of assumptions, and should be disclosed clearly.
3. Demographic and job creation projections over long periods of time—say, anything beyond five years—in a small and fast-growing geography within a larger, dynamic region, are very difficult to make, subject to large margins of error, and should be viewed skeptically by policy makers.
4. The exercise is largely academic, using numbers to make high-level points that can shape policy direction. If the projected needs are taken too literally, policy makers will quickly realize that the housing production system—inclusive of private, nonprofit, and public sectors—will not be able to respond at a level required to meet the needs and this can have a discouraging effect that is unhelpful.

At this time, the Town's housing goals are not highly specific, beyond the acknowledgement that increased diversity is important and that it has a 12% goal for permanent affordability as part of the Boulder County Regional Housing Partnership. This is not a problem for the time being, and future discussions will help narrow the focus. For this discussion, as an example, let us consider a scenario in which the Town has only a single, simply-defined goal of matching the household composition of the greater region when it comes to housing tenure and household incomes. This is a reasonable approach, given the relatively rich diversity of housing options and households across the region, which Erie might like to match.

The first step would be to measure the gap between the Town of Erie and the greater region, as illustrated in Table 8 below. The region is defined here as the combination of Boulder, Weld, and Broomfield Counties.

Table 8. Distribution of Households by Tenure and Income, Erie vs. Region, 2020

	Composite Region - Boulder, Weld, Broomfield Counties		Erie	
	Households	Percent	Households	Percent
<i>Owner Households by Income</i>				
Less than \$50,000	36,328	14.2%	774	8.7%
\$50,000 to \$74,999	25,796	10.1%	624	7.0%
\$75,000 to \$99,999	23,668	9.2%	729	8.2%
\$100,000 to \$149,999	39,519	15.4%	2,116	23.7%
\$150,000 or more	49,840	19.4%	3,370	37.8%
<i>Renter Households by Income</i>				
Less than \$50,000	39,896	15.5%	480	5.4%
\$50,000 to \$74,999	14,798	5.8%	184	2.1%
\$75,000 to \$99,999	10,433	4.1%	217	2.4%
\$100,000 to \$149,999	10,041	3.9%	314	3.5%
\$150,000 or more	6,291	2.5%	104	1.2%
Total	256,610	100%	8,912	100%

Data Source: 2016-2020 ACS Five Year Estimates

The main differences, when compared to the region, are that Erie on a proportional basis has far fewer owner households with incomes below \$100,000, far more above \$100,000, and many fewer renter households at almost any income level. If Erie wanted to rebalance its household composition to match the estimated 2020 composition of the region, and it is further assumed that no current categories of household would be reduced to make this rebalancing happen, the Town would have to set a specific growth trajectory as described in Table 9.

Table 9. Future Household Composition Scenario where Erie matches Region

	Erie Targets		New Households	MAX Price Points
	Households	Percent	Units Needed	
Owner Households by Income				For Sale (3.5 Ratio Income to Value)
Less than \$50,000	2,456	14.2%	1,682	\$175,000
\$50,000 to \$74,999	1,744	10.1%	1,120	\$262,500
\$75,000 to \$99,999	1,600	9.2%	871	\$350,000
\$100,000 to \$149,999	2,672	15.4%	556	\$525,000
\$150,000 or more	3,370	19.4%	0	More than \$525,000
Renter Households by Income				For Rent (30% Gross Income)
Less than \$50,000	2,697	15.5%	2,217	\$1,250
\$50,000 to \$74,999	1,001	5.8%	817	\$1,875
\$75,000 to \$99,999	705	4.1%	488	\$2,500
\$100,000 to \$149,999	679	3.9%	365	\$3,750
\$150,000 or more	425	2.5%	321	More than \$3,750

Data Source: czb analysis of data from ACS Five Year Estimates

Because the Town is “oversupplied” with the highest-income owner-occupied households relative to the region, it would not, under this scenario, seek to add any more of the housing most likely to match with those households. Instead, it would seek to add thousands of the types of units that it does not currently have, or has in much smaller percentages than the rest of the region—namely for-sale ownership units priced below \$525,000 and rental units at any price point but especially those renting for no more than \$1,250 per month. (For ownership units, we have used a household income to value ratio of 3.5, halfway between 3 and 4.) If the Town wanted to pursue the approach illustrated in the table, it would need to reassess its land use regulations, including zoning, to ensure the private sector could deliver housing types that would match the projected needs. It would also need to determine the gaps between the costs to deliver the housing units and what the projected households could pay.

As this project continues, and the analysis evolves, we may explore employment-based models and/or demographic scenarios to define ranges of potential housing intervention needs and inform possible future zoning changes as well as funding needs to fill financial gaps.

Town’s Goal of 12% Permanently Affordable Housing Units by 2035

As part of the Boulder County Regional Housing Partnership, Erie has made a commitment that 12% of its housing units will be permanently affordable by 2035. The goal is admirable, and ambitious, but as a practical matter it will be difficult to achieve. Erie has no permanently affordable housing, and it had just over 10,000 housing units in 2020, according to the 2020 Decennial Census, the last official count of housing units. It undoubtedly has more than that today. For ease of analysis and making a critical point, however, we will begin with the 2020 figure as the base starting point.

Assuming the 2020 base figure of 10,332, if no other housing units were built between 2020 and 2035, the Town would need to facilitate the construction of over 1,400 affordable units to reach its goal of 12%. Of course, this does not reflect reality, as the Town's housing supply continues to grow in the meantime, meaning the 12% goal is constantly on the move. As the market-rate supply increases, the number of permanently affordable units needed to hit the goal increases with it. On average, the Town of Erie added about 450 new housing units each year between 2000 and 2020. To grasp the challenge of achieving the 12% goal by 2035, consider the following scenarios at various paces of development:

- At a pace of 300 new housing units each year between 2020 and 2035, 40% of all new units would need to be affordable.
- At a pace of 400 new housing units each year between 2020 and 2035, 33% of all new units would need to be affordable.
- At a pace of 500 new housing units each year between 2020 and 2035, 29% of all new units would need to be affordable.
- At a pace of 600 new housing units each year between 2020 and 2035, 26% of all new units would need to be affordable.
- At a pace of 1,000 new housing units each year between 2020 and 2035, 20% of all new units would need to be affordable.

There are a number of reasons why these scenarios may be implausible, from constraints on currently developable land, to the private sector's capacity to build at such a pace, to the lack of public resources to help fill the gap for such high levels of affordability. None of this detracts from the fact that the Town has planted a flag and set an ambitious goal. Part of the work in this Housing Needs Assessment and Strategy will be to put goals and resources into their proper context so that the Board of Trustees can make informed policy decisions.

As the Town considers housing issues and opportunities in the coming months and beyond, it has the chance to either keep or modify its goal, but also to add to its list of goals and do so strategically. There may be opportunities to set ambitious but achievable goals when it comes to housing diversification, specific target markets, program development, funding, or other areas.

Potential Affordable Housing Income Limits and Target Markets

Public sector organizations that do affordable housing work traditionally determine affordability targets based on the Area Median Income, or AMI. Generally speaking, affordable housing is aimed at households with incomes at or below 80% of the AMI on the assumption that households with incomes above that level are likely able to find suitable housing in the marketplace that they can afford, and this is generally true for rental housing more than ownership housing. In particularly expensive markets like Erie's, there may be programs aimed at ownership housing for households earning up to 120% AMI or even higher in some cases. Understanding local incomes, in the form of AMI, may be helpful to policy makers and practitioners as they seek to define target markets and determine future eligibility criteria.

As stated above, affordability is relative, based on the premise that no household should spend 30% or more of its gross income on housing costs. When housing units are designated as affordable and regulated by any level of government, rents or prices are based on this premise

and a local affordable housing portfolio may have units affordable to different income levels. Further complicating matters, incomes vary by region and units of government regulating affordable housing usually change income limits based on household size. Table 10 below illustrates existing income limits for the Boulder Metropolitan Statistical Area (MSA) and the Greeley MSA, which consist of Boulder County and Weld County respectively, and the corresponding estimated incomes for the Town of Erie. The Boulder and Greeley MSA figures are provided by the Department of Housing and Urban Development (HUD), but HUD does not provide Town-specific limits, so they have been estimated using income data from American Community Survey five-year estimates.

Table 10. Actual and Potential Affordable Housing Income Limits for Erie

	Boulder County*	Weld County*	Erie**
60% AMI			
3 Person Household	\$60,750	\$53,475	\$83,417
4 Person Household	\$67,463	\$59,400	\$96,850
80% AMI			
3 Person Household	\$81,000	\$71,300	\$111,222
4 Person Household	\$89,950	\$79,200	\$129,134
100% AMI			
3 Person Household	\$101,250	\$89,125	\$139,028
4 Person Household	\$112,438	\$99,000	\$161,418
120% AMI			
3 Person Household	\$121,500	\$106,950	\$166,834
4 Person Household	\$134,925	\$118,800	\$193,702

*Data Source: FY 2022, Income Limits Summary, HUD User

** Data Source: 2016-2020 ACS Five Year Estimates

The estimated average household size in Erie is three (3). This is the same for both owner-occupied and renter-occupied households. According to the data presented in Table 8, Erie has a disproportionately small number of households with incomes below \$100,000, which is around 100% AMI based on county figures, depending on household size, and approximately in the 60-80% AMI range for Erie, specifically, depending on the household size.

If and when affordable housing projects in the Town access state and local funds, those projects will likely be subject to the limits defined by HUD for Boulder and Weld Counties. As the Town considers future programming using its own funds, it could have more flexibility in how it sets limits. If policymakers and program staff are to use AMI language going forward, understanding these nuances will become important.

Potential Housing Tools for Future Consideration

Moving forward the Town may consider a handful of tools for increasing the production of affordable housing, including but not limited to:

- Inclusionary housing ordinance, in which developers are required to produce some percentage of units as affordable housing under rules set by the Town.
- Financial incentives for affordable housing developers in the form of direct cash assistance and/or considerations such as certain fee reductions or rebates.
- Regulatory changes to create densities better able to support affordable housing, especially affordable rental housing. Such changes can improve economies of scale that

facilitate properly functioning inclusionary housing ordinances and/or enable affordable housing developers to lower development costs per unit.

- Below-market sale or transfer of publicly owned land for the purposes of affordable housing development.
- Affordable homeownership program(s) using various means, such as down payment assistance, deed restrictions, and/or a potential land trust where a public or nonprofit entity controls the underlying land to control disposition of the home.

Project Next Steps

The Affordable Housing Needs Assessment and Strategy will continue through the end of 2022, with a number of activities planned in the coming months.

- Analysis will continue through the early fall of 2022, including evaluation of approaches to a draft inclusionary housing ordinance.
- Early findings will be shared at a public open house on September 22.
- During the fall, work will continue on strategic options that the Town may consider adopting in the future to support affordable housing production.
- Additional analysis and strategic options will be presented to the Board of Trustees for consideration at a future meeting, tentatively in November.
- Additional stakeholder meetings and a second public open house will take place in November to share progress and test options.