

Fees add \$68K to home's cost, study finds

Largest outlay for developers is for water tap, which averages \$40K for single-family house

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When it comes to building a new home, labor, materials and land costs dominate. But there is a fourth expense item that has weighed heavily on builders and pushed up prices.

Just over a tenth of what a new single-family home costs in metro Denver goes to cover the development fees that local governments charge builders — and those fees can vary widely depending on where a home is being built, according to a study from the Home Builders Association of Metro Denver.

"Fees are a very big challenge, and they have tended to be higher in metro Denver than in other places in the country. It is a big chunk of the cost for a new home, and they have gone up a lot in the last five or six years," said Aaron Foy, owner of BLVD Builders, a small builder active in Denver, Aurora and Castle Rock.

The association, in a first-of-its-kind analysis, looked at the 16 cities and counties with the largest number of new home permits pulled in metro Denver. It used fee schedules provided by those governments, as well as a review of invoices that builders paid.

"We hope it helps local governments better understand how their fees impact the cost of housing. We stand ready to help them. Let's ensure the fees are related to the level of services needed," said Ted Leighty, CEO of the HBA, in explaining why the group undertook the research.

Development fees consist of permit fees to review and approve the plans for a new home; the use taxes local governments are allowed to levy on construction materials; a range of impact fees to cover things like parks and roads; and the water tap fee, which covers the costs associated with connecting a home to the water and sewer systems in an area.

The fees don't include what a metro district might charge to put in curbs and stormwater systems or what a fire district might charge to provide protection. It doesn't include things like a developer obtaining and transferring water rights or donating land for parks and open space. On average, builders in metro Denver paid \$67,896 to local governments for a detached or standalone home, and \$52,065 for a new duplex, condo or townhome, according to the study.

Zillow, the real estate portal, estimated that the median price of a new home in Denver was \$609,000 in May, slightly higher than the median of \$590,000 for an existing home. Development fees, on average, represent 11% of what builders must pay to bring a new home to market.

Those added costs matter because every \$1,000 increase in the cost of a home prevents 968 households in metro Denver and 1,699 in Colorado from becoming owners, the HBA said. Higher new home prices cause existing home prices to rise and limit who can own, leaving a higher share of the population stuck renting.

That average fee, however, masks a wide variation. Castle Rock charged the highest development fees in the study — \$94,113 for a detached home and \$85,774 for an attached home. Unincorporated Adams County represented the best bargain, with development fees of \$36,247 for a detached home and \$24,260 for a condo or townhome.

"The Town of Castle Rock uses impact fees and system development charges for several important community priorities: to improve roads and build interstate interchanges; build new parks and fire stations; and obtain renewable water supplies. This follows our successful growth strategy that growth should help pay the costs associated with new growth," said Melissa Hoelting, the town's communications manager, in an email.

After Castle Rock, the governments charging the most in development fees were Erie, Brighton, Parker, Thornton and Longmont. Their fees for single-family homes ranged from \$86,577 to \$75,315.

The most affordable places for fees after Adams County were Jefferson County, Denver, Lone Tree and Douglas County, with total development fees ranging from \$40,039 to \$56,872 per home. Denver, not normally viewed as a lower-cost place to do business, had development fees of \$47,134 for single-family and \$33,009 for condos and townhomes.

Some of that gap reflects the lower level of services offered in unincorporated areas compared to towns and cities. Cities also collect a much smaller share of their revenues from property taxes than counties do, which means they are limited in how much they can cover through property taxes. And there are different approaches when it comes to putting more costs into the tax base versus having builders and eventually new buyers pay up-front rather than over time.

Why the gap?

The largest government fee that builders have to cover is the water tap, also known as the system development fee, which averages \$40,731 per single-family home and \$33,110 per attached home in metro Denver. That item accounts for 60% of the development fee total on average, and it varies widely.

Erie has the highest water tap fee at \$57,550 per single-family home, followed by Thornton at \$57,053 and Brighton at \$53,307. Denver has the lowest water tap fees at \$15,590, nearly one-quarter of what Erie and Thornton pay. By extension, older water districts in unincorporated areas and older suburbs that allied with Denver Water long ago also have lower tap fees.

The highest tap fees are concentrated among towns and cities on the periphery that secured more expensive water rights later and whether by necessity or choice, built their own water and sewer system.

For the younger communities, water costs more. We don't have first water rights like Denver. They have a much lower cost," said Sarah Nurmela, planning and development director with the town of Erie. Two-thirds of Erie's development fees are tied to water and sewer, while in Denver, that ratio is only one-third.

Paying for growth in the 2000s has become a much more expensive proposition than it was in prior decades. Builders face higher costs, but so do local governments, Nurmela said. In 2000, Erie had a population of 6,700. By 2010, it had grown to 16,100 and this year it is at 38,000. Higher fees haven't hampered growth, and lower land costs on the fringes of the metro area offer a trade-off.

"Erie certainly has accommodated quite a bit of growth. It is just costly," she said.

Nurmela said the town changed its codes to allow for smaller homes on smaller lots and create more diversity and affordability in its housing stock, aligning with a trend seen nationally since the pandemic. But the town doesn't require denser construction and close to 90% of the permits being pulled are still single-family detached, she said.

Albert Bozoki, government affairs coordinator with the HBA and the author of the study, acknowledges there isn't much local governments can do when it comes to water tap fees. Water rights and water delivery infrastructure have become much more expensive. It is a cost newer communities have had to take on, given that Denver Water is more limited in who it can serve.

Denver Water serves 1.5 million people, or a quarter of the state's population, and it is working on boosting its capacity to 2 million people. But reaching more far-flung locales like Erie, north Broomfield and Castle Rock would require a significant investment in pipeline capacity.

"The areas where municipalities can change are in their impact fees and what impact fees they want to assess," Bozoki said.

Cities and counties have wide discretion in what they charge. Castle Rock charges \$30,790 in impact fees per single-family home, in part to keep property taxes lower, while Arvada charges \$2,152 per home — one-fourteenth as much. Some charge more impact fees as a way to keep development costs with the people moving in rather than shifting them to current residents.

"Town residents, including new residents, benefit from this strategy in many ways, including with the lowest town or city property tax mill levy for a Front Range full-service municipality. The median valued home in Castle Rock pays less than \$40 per year in Town property taxes," Hoelting said.

Denver, frugal in other areas, charges the second-highest impact fee after Castle Rock at \$27,333 — which includes the cost of providing more affordable housing and a forestry impact fee, Bozoki said.

There is also a wide gap in the use tax that communities charge on construction materials. Commerce City levies \$16,501 in use tax on a typical home, while Arapahoe County charges \$539. Among municipalities, Lone Tree has the lowest use tax on new homes at \$6,635, while Castle Rock, 14 miles to the south, charges \$12,309.

“Color me unsurprised that there are differences between entities,” said Kevin Bommer, executive director of the Colorado Municipal League.

Development fees often come up in discussions on how to improve housing affordability, and some people would like to limit or cap them, Bommer said. But the state decided long ago that development should pay its own way. TABOR limits the ability of local governments to shift the costs of development onto existing residents. And towns and cities have a right to charge use taxes.

“Ted (Leighty) and I have had some intermittent discussions about a way that we could appropriately bring together not just homebuilders and municipalities but some of the other players in the space to talk about if there are opportunities to lower costs,” he said.

Regional cooperation, such as implementing technology to streamline the permitting process and building common infrastructure to provide essential services, represents a better solution than having mandates pushed down from state leaders that limit local control, Boomer said.

Leighty argues that Colorado’s overall approach to developing new housing is inefficient and that better planning could help lower costs. His message is that communities should only charge what is necessary when it comes to development fees and that they should study and learn from governments that are doing a better job of containing costs.

One way developers have responded to rising costs is to build smaller homes on smaller lots or to build more attached homes. Most communities offer lower fees for providing density, notably Denver, Aurora, Commerce City, Thornton and Arapahoe County. But in Douglas and Jefferson counties, and in Lone Tree, there is only a small gap, putting attached housing at a disadvantage, given that it carries a lower sales price.

Foy said he is concerned that some communities are using fees and a drawn-out permitting process to limit development to what they consider acceptable, rather than what is needed to meet the needs of residents.

“I think there is a sense that we welcome development, but we welcome the development we like. They won’t tell you what they like. We like it to be nicer and more expensive,” he said.

Charge high development fees, and only higher-cost homes can get built. The process is a way of blocking people earning lower incomes from being part of a community, he said, which is why he argues a statewide solution is needed.

“You hear that salaries in the Bay Area are high. It is not so much that the salaries are high; it is that the people who don’t make those salaries have left. You don’t have the firemen, police and teachers living in those areas because they can’t afford it,” Foy said.

He fears metro Denver is moving down the same path.

