

Accessory Dwelling Units Can Help Unlock Housing Affordability in Colorado

KEVIN ERDMANN

Senior Affiliated Scholar, Mercatus Center at George Mason University

Colorado Senate, Local Government and Housing Committee
HB24-1152 Accessory Dwelling Units

April 23, 2024

Chair Exum and members of the Local Government and Housing Committee, thank you for giving me the opportunity to offer testimony on allowing Colorado homeowners to build accessory dwelling units. I am Kevin Erdmann, a senior affiliated scholar with the Mercatus Center at George Mason University. I study housing policy and affordability across the United States and how housing policy reforms like those in the proposed HB24-1152 have affected housing market outcomes.

Many states are recognizing the need for housing reform, including more flexibility for homeowners to add accessory dwelling units (ADUs) to their properties. Here, I will focus on three points:

1. Allowing homeowners across Colorado to build ADUs would be an important step toward permitting the construction of a relatively affordable type of housing.¹ Accessory dwelling units are banned in many single-family neighborhoods in this state.
2. Restrictions on the right to build housing are responsible for high housing costs in Colorado.
3. State policymakers have an important role in limiting the ability of localities to restrict housing development that would improve housing affordability.

1. Accessory Dwelling Units Can Make Housing More Affordable

The proposed bill would give homeowners across Colorado the opportunity to build an attached or detached ADU. For ADU reform to be effective, it is important to avoid complications such as owner-occupancy requirements, parking requirements, and conditional use permitting.²

¹ Emily Hamilton and Abigail Houseal, “A Taxonomy of State Accessory Dwelling Unit Laws” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, March 2023); Edward Pinto, Tobias Peter, and Emily Hamilton, *Light Touch Density: A Series of Policy Briefs on Zoning, Land Use, and a Solution to Help Alleviate the Nation’s Housing Shortage* (Washington, DC: American Enterprise Institute, 2022).

² Salim Furth and Jess Remington, “Ordinances at Work: Seven Communities That Welcome Accessory Dwelling Units” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2021).

Accessory dwelling units offer homeowners several potential benefits. First, they create an opportunity for homeowners to offset a portion of their mortgage payment by renting out part of their space. One study on ADU construction in Los Angeles finds that homeowners who choose to build these units increase their property values by 46 percent on average.³

Second, accessory dwelling units create more flexibility for people to meet their housing needs as the country's demographics change. ADUs make intergenerational living feasible, allowing young adults or elderly people to live with family members in spaces that can be built to accommodate accessibility requirements.⁴

Third, accessory dwelling units also have the benefit of being one of the most affordable types of new housing. Because ADUs are built on land attached to a single-family home, their land cost is zero. They also offer renters a more affordable type of housing. For example, in Washington, DC, basement apartments are the most common type of ADU, and they tend to rent for hundreds of dollars less per month than standard one-bedroom apartments in the same neighborhood.⁵ Similarly, in Los Angeles County a survey of homeowners found that ADUs typically rent for \$400 less per month than the county's median rent.⁶

2. Land Use Regulations Limit New Housing and Inflate Housing Costs

When zoning rules constrain housing supply—as is the case in high-cost regions in Colorado—the result is a limited supply of existing homes that become more expensive, forcing lower-income families to live elsewhere.⁷ This harms the state's most vulnerable residents and undermines the state's central role in securing economic opportunity for all.⁸

For every new home built, many households will move among the existing housing stock. Most of the changing character of a city comes from the movement of people between structures, not the production or renovation of structures. When a granny flat is built in Greenwood Village, rents decline in Aurora, because when granny moves in with her extended family in Greenwood Village, another family moves into her old house, and another family moves into their old apartment—and so on down

³ Sarah Thomaz, "Investigating ADUs: Determinants of Location and Their Effects on Property Values," Working Paper, accessed 2020, <https://sites.google.com/view/sarahthomaz/research>.

⁴ AARP, *The ABCs of ADUs: A Guide to Accessory Dwelling Units and How They Expand Housing Options for People of All Ages*, 2019.

⁵ Jennifer Barger, "How to Rent Out Your Basement in DC," *Washingtonian*, August 13, 2015.

⁶ Karen Chapple, Dori Ganetsos, and Emmanuel Lopez, *Implementing the Backyard Revolution: Perspectives of California's ADU Owners* (Berkeley, CA: The Center for Community Innovation at UC Berkeley, 2021); and Zillow, Housing Data (database), "ZORI All Homes Plus Multifamily Time Series (\$)," accessed March 31, 2023, <https://www.zillow.com/research/data>.

⁷ Kevin Erdmann, Salim Furth, and Emily Hamilton, "The Link between Local Zoning Policy and Housing Affordability in America's Cities" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, March 2019).

⁸ Macroeconomists find that land use regulations harm both income mobility and economic growth. Peter Ganong and Daniel W. Shoag, "Why Has Regional Income Convergence in the US Declined?," *Journal of Urban Economics* 102 (2017): 76–90; Chang-Tai Hsieh and Enrico Moretti, "Housing Constraints and Spatial Misallocation," *American Economic Journal: Macroeconomics* 11, no. 2 (2019): 1–39; and Edward L. Glaeser and Joseph Gyourko, "The Economic Implications of Housing Supply," *Journal of Economic Perspectives* 32, no. 1 (2018): 3–30.

the line to Aurora. Allowing new units of all types helps residents across the city as much as it helps the new tenants.

This is clear in Denver. At the height of the 2006 housing boom, homes in the wealthiest parts of Denver typically sold for about three times a resident's income. That is still the case in 2024. However, while in 2006 homes in the poorest parts of Denver sold for about five times a resident's income, today they sell for eight times their income. Every family's cost of living is related across a city: When a city lacks adequate housing of any kind, it affects countless decisions families make about moving across the city. Costs rise the most where housing was the cheapest because families that live in those homes have fewer choices and less power to avoid rising rents. This pattern can be seen in cities across the United States because regulations, such as limits on ADUs, keep new home construction unsustainably low.⁹

3. The State Has a Role in Allowing Construction of Accessory Dwelling Units

Zoning and other land use regulations are generally implemented at the local level, but the state has an important role in limiting the ability of localities to stand in the way of new housing development.¹⁰ Because localities are creatures of their states, states have the legal authority to set limits on local regulation. The effects of local rules that prevent home building in one locality spill over to the next. Local land use regulations that limit population growth, economic growth, and income mobility within one city or county limit growth and opportunity for the whole state. Only the state legislature has the breadth of authority to address this.

Three constituencies are affected by ADUs:

1. Neighbors, who want to have a say over the aesthetics of new units
2. Developers or homeowners, attempting to do a renovation
3. Families, moving into older existing homes that are freed up elsewhere in the city

The first constituency has representation at the local level. All the rules put in place by municipalities, such as limits on ADUs, are intended to give residents control over the kind of construction and renovations allowed in their neighborhood. Where these rules bind, the second and third groups of constituents—homeowners or developers, and families who live elsewhere—don't have representation.

Of these three constituencies, the neighbors concerned about aesthetics represent a miniscule portion of the costs and benefits of those units. If a family can add the granny flat in the backyard, a few neighbors might notice the roof sticking up in the yard as they take their evening walks. Or, in an egregious example, they might notice a paint color or style they dislike.

⁹ Kevin Erdmann, "Price Is the Medium through Which Housing Filters Up and Down: A Proposal for Price/Income As an Indicator of Housing Supply Elasticity" (Mercatus Research Paper, Mercatus Center at George Mason University, Arlington, VA, November 18, 2022); Kevin Erdmann, "Home Price Trends Point to a Worsening Lack of Supply" (Mercatus Research Paper, Mercatus Center at George Mason University, Arlington, VA, May 30, 2023).

¹⁰ Emily Hamilton, "The Case for Preemption in Land-Use Regulation" in "Capitol Hill, State House, or City Hall: Debating the Location of Political Power and Decision-Making: A Mercatus Colloquium," ed. Eileen Norcross (Mercatus Center at George Mason University, July 20, 2017), <https://www.mercatus.org/research/essays/capitol-hill-state-house-or-city-hall-debating-location-political-power-and>.

If a safe, reasonable granny flat cannot be constructed due to aesthetic concerns, then granny cannot come live there. But her loss is just a small portion of the greater loss suffered by the countless families that, as a result, will have fewer affordable housing choices as they move around the city. The effect of one lost granny flat is hard to measure, but at this point, the large number of missing units have added up to a crisis. The countless rent-burdened residents don't care about the aesthetics of the granny flat; they just need the added choice made possible by more units. For any given unit, there is one neighborhood concerned with aesthetics, one family that would like to live with granny, and 1,000 neighborhoods concerned about having more affordable housing choices.

For decades, problems caused by this imbalance of representation were manageable. Housing across the state was affordable. That is not the case today.

Conclusion

Housing affordability is a central challenge for many Colorado residents, and the principal source of this challenge is local land use regulations that limit property owners' right to build housing. Permitting Colorado homeowners to build ADUs is one way to provide greater housing choice and allow for a more flexible housing supply for all Colorado residents. It is appropriate for state policymakers to step in to set limits on local land use regulations and to increase homeowner rights, because at the end of the day regulations that stand in the way of housing affordability and economic opportunity in one neighborhood affect the entire state.