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Housing Affordability in Colorado

the
housing
affordability
gap



the housing affordability gap

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Housing Affordability Defined



Housing affordability is an important consideration for everyone, regardless of income. Whether a household earns \$250,000 or \$50,000 annually, it must balance how much it can afford to spend on housing costs, so they also have sufficient income for other needs, such as food, clothes, transportation, medical expenses, and savings for emergencies.

As a general rule, a household should not spend more than 30 percent of its annual gross income towards housing costs.

- When renting, housing costs include both rent and utility expenses.
- In homeownership, housing costs include the mortgage loan principle, interest, property taxes, and insurance payment (PITI), as well as any homeowners association (HOA) dues required.

Households spending more than 30 percent of their gross annual income on housing are considered “cost-burdened.”

Households spending 50 percent or more of their gross annual income towards housing are defined as “extremely cost-burdened.”



Homelessness

The inability to afford a permanent home, otherwise known as homelessness, affects children, families, and individuals in several regions across Colorado. During the 2016–2017 school year, Colorado schools identified 21,943 students without a safe place to call home. In addition, the Metro Denver Homeless Initiative’s 2018 Point-in-Time Report counted 5,317 homeless men, women, and children living in Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties. Of those counted, 26.4 percent were families with children and 73.6 percent were families without children.

A key approach to solving homelessness in Colorado has been the adoption of the Permanent Supportive Housing (PSH) model. PSH combines affordable rental units with access to support services that help vulnerable individuals and families break the cycle of homelessness. Studies conducted by the Department of Housing and Urban Development (HUD) Office of Policy Development and Research have shown that the PSH model establishes long-term housing stability, improves health outcomes, and reduces crisis services such as emergency room and hospital visits, and law enforcement activity.

In 2014, the State of Colorado, Colorado Housing and Finance Authority (CHFA), Enterprise Community Partners, and LeBeau Development created the Pathways Home Supportive Housing Toolkit to spur PSH development. The Toolkit offers technical assistance and peer learning sessions designed to help nonprofits, community leaders, service providers, and developers build high-quality supportive housing.

According to Governor Hickenlooper’s Office, a 2014 study found that while Colorado had an existing inventory of 7,800 PSH units, in order to meet the needs of individuals and families experiencing homelessness, 5,800 new PSH units were needed. As a result of the Pathways Home Supportive Housing Toolkit, 615 new PSH units have been, or will be, developed throughout Colorado as of 2018.

Rental Housing

In 2018’s first quarter, the median rent in Colorado was \$1,317, which is a 36 percent increase over the average median rent over the last five years. A lack of inventory and increased demand have been key contributors to rising rent costs, causing rent to become unaffordable in various regions across the state. In fact, 50 percent of all Colorado renters are cost-burdened, paying 30 percent or more of their household income towards rent. Nearly one in four households (24 percent) is extremely cost-burdened, paying 50 percent or more of their income towards rent. To afford the median rent in Colorado, a two-person household must earn 80 percent of the Area Median Income (AMI), which is \$52,680.

Colorado’s rental vacancy rate was at 5.8 percent in 2018’s first quarter. Certain regions throughout Colorado had even lower rates, including Pueblo at 4.5 percent, Fort Collins/Loveland at 3.3 percent, Greeley at 1.3 percent, and Grand Junction at 0.8 percent. Vacancy rates were at zero percent in Sterling, Aspen, Gunnison, and Montrose. Vacancies were the lowest for two-bedroom, one-bathroom units, and three-bedroom units both at 4.3 percent.

Reports on future market activity indicate thousands of new units are planned to come online over the next several years to help meet current and future demand.

The effects of Colorado’s tight rental market are not limited to low-income households that earn 30 to 60 percent AMI. Unaffordability has become more widespread, affecting many moderate-income households as well, who now find it difficult to afford market rate rent. This phenomenon is referred to as the “missing middle” crisis.

In the Denver Metro area, for example, a two-person household earning 60 percent AMI, or \$38,460 annually, could afford the median market rate rent for a two-bedroom, one-bathroom apartment only two years ago. Currently, these households cannot afford the median market rate rent for this unit type, and do not qualify for low-income housing, which further exacerbates the need for affordable rental housing.

(American Community Survey, 2016 five-year data tables)

Homeownership

Currently, the homeownership rate in Colorado is 64.4 percent and the median home price is \$368,000. The median gross annual income of a two-person household in Colorado is \$66,100, yet it would take that same family \$92,500 earned annually to afford a median-priced home. In addition, the National Association of Home Builders/Wells Fargo Housing Opportunity Index showed that in 2018's second quarter, only 41.6 percent of homes sold in the Denver-Aurora-Lakewood, CO Metropolitan Statistical Area (MSA) were affordable to those earning 100 percent AMI.

Influencing Factors

■ Population Growth and Wages

Other factors influencing the rental and single-family housing affordability gap include Colorado's growing population, projected to rise by one million more households in the next 23 years. Additionally, while the population increased, wages remained flat. In 2017 alone, the median home price increased 8.1 percent, while wage growth statewide averaged only 4.3 percent from 2016 to 2017.

■ Seniors and Aging Baby Boomers

Ensuring affordable housing options are available for Colorado's senior population, which continues to grow as Baby Boomers age, is critical and has a visible effect on the market. According to the latest U.S. Census, 13.8 percent of Colorado's population is 65 years of age or older. It is projected that by 2033, the population of Americans 65 and older will outnumber those younger than 18 for the first time in history.

■ Loss of Inventory

• Preservation

Because a lack of inventory is an influencing factor in the affordability gap, preservation of low-income housing is vital. Properties serving low-income households are most commonly required to remain affordable for 30 to 40 years. Affordability restrictions on approximately 25,000 affordable rental housing units are set to expire in the next decade across Colorado. In addition, many of these aging developments require rehabilitation to sustain current and long-term inhabitability.

• Short-term rentals

Online services that connect property owners with those seeking short-term rents, such as AirBnB, are on the rise and impacting housing affordability in Colorado and communities throughout the U.S. Homeowners and multifamily property owners alike use such services, which have been scrutinized regarding fair housing and housing affordability implications. In an effort to regulate activities related to the short-term rental marketplace, the City of Denver implemented licensing requirements in 2016, legalizing previously illegal rent terms of 30 days or less. The impact of short-term rental services in Colorado's resort regions is also being felt as long-term rental properties are more commonly being offered as short-term vacation rentals, adding pressure to the already tight rental markets in those regions.

• Residential marijuana grow operations

Colorado's legalization of the cultivation, sale, and consumption of marijuana has influenced the real estate market. For-sale prices and rents for warehouse facilities have skyrocketed with the rise of Colorado's marijuana industry to accommodate needs suitable for large grow operations. In turn, residential properties are being sought and used for marijuana cultivation, further diminishing Colorado's housing stock and driving up homes prices. According to the U.S. Drug Enforcement Agency (DEA) marijuana grow houses often incur significant structural and electrical damage, leaving them uninhabitable.



Environmental Factors

Financing the infrastructure of affordable housing is a challenge for all developers and builders, regardless of who their properties serve, but is especially prohibitive to the development of affordable housing. In Colorado, the high cost of land is a key issue. Land and development costs account for 40 percent of a typical project's budget. In Colorado's mountain communities, the price of land is especially high and sites conducive to building are extremely limited. Difficult terrain also compounds the financial challenges as the costs of construction and accessing materials rise.

Additionally, increasing impact fees for such projects add to the pressure for all development and are ultimately passed down to the customer, further expanding the affordability gap. Due to drought conditions in recent decades, the cost of water alone in the western U.S. is a significant consideration for housing production. Additional costs to establish environmental regulatory compliance also play a role in project budgeting.



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