Impacts of Colorado’s Housing Shortage:
Causes, Consequences, Consensus, and Lessons Learned

April 2023
Colorado Home Construction Lags Population Growth

Although Colorado’s population is growing, the state’s average household size reached an all-time low of 2.46 in 2021.

More people living in smaller households leads to a greater demand for new homes.

64% of U.S. households have 1 or 2 people; just 9% have 5 or more.

Source: U.S. Census Bureau
Coloradans Feel Consequences of Housing Shortage

88% say the rising cost of living is a serious problem in Colorado.

This Dillon teacher lives in a van — not for the “van life,” but because it’s her only affordable option.

Home prices may be falling in Denver, but costs are still shutting out many buyers.

An ‘insane’ housing market is hitting military families hard when they have to move.

In Vail, housing shortage threatens America’s ski wonderland.
Home Prices Spike With Fewer Homes on Market

Source: White House Council of Economic Advisors’ analysis of Federal Reserve economic data and National Association of Realtors monthly supply data
Rents Rise When Housing Availability Tightens

Source: Apartment List rent estimate and vacancy index data
Real Estate Investment Prospectus

“We have selected markets that we believe will experience strong population, household formation, and employment growth, and exhibit constrained levels of new home construction. As a result, we believe our markets have and will continue to outperform the broader U.S. housing and rental market in rent growth and home price appreciation. ... We could also be adversely affected by overbuilding or high vacancy rates of homes in our markets, which could result in an excess supply of homes and reduce occupancy and rental rates. Continuing development of apartment buildings and condominium units in many of our markets will increase the supply of housing and exacerbate competition for residents.”

Source: Invitation Homes Inc. Prospectus, filed with U.S. Securities and Exchange Commission in 2017
Low Vacancies Fuel Bidding Wars, Rental Scams

Bidding wars and price hikes: Are New York renting realities coming to Denver?

by Amanda Horvath, Alexis Kikoen • Published on August 29, 2022

Rental scams are trickier than ever in Colorado’s housing crunch

By Lacretia Wimbley • Aug. 15, 2022, 4:00 am
Colorado Home Construction Digging Out of Shortfall

New homes per 10,000 population

Sources: Pew’s analysis of U.S. Department of Housing and Urban Development building permits data and Federal Reserve resident population data
Colorado Home Price Growth Stems From Long Construction Shortfall

Typical home value by region, smoothed and seasonally adjusted

Source: Zillow
Places With Updated Zoning Have Seen Slow Rent Growth

Minneapolis, New Rochelle, Portland, and Tysons updated their zoning to legalize a variety of housing types, ranging from apartments to accessory dwelling units to “missing middle” housing (duplexes, triplexes, and fourplexes).

In addition, they took steps that helped lower building costs, such as making it easier to get construction permits and reducing parking requirements.

Home construction in those four cities has increased and rent growth is low.

Source: Pew’s analysis of Apartment List rent estimate data
Rent Growth Is Low Where Housing Has Been Added

The four local jurisdictions shown also experienced high housing demand—they added proportionally more households than the U.S. overall from 2017-21—and still had low rent growth.

Source: Pew’s analysis of Apartment List rent estimate data (Jan. 2017-Jan. 2023) and U.S. Census data on housing units (2017-2021)
National Rent Burden at All-Time High

Notes: Cost-burdened (severely cost-burdened) households pay more than 30% (more than 50%) of their income on housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens. Data from 2020 is omitted due to data collection issues experienced during the COVID-19 pandemic, precluding comparisons with other years of data.

Source: Joint Center for Housing Studies of Harvard University’s analysis of U.S. Census Bureau data
Housing Costs Are Primary Driver of Homelessness Rate

Large Cities That Allow Ample Housing Construction Have Kept Rents Affordable
Allowing Enough Housing Reduces Homelessness

Homelessness rate per 10,000 population

- San Diego: 26
- Austin: 24
- Denver: 21
- Phoenix: 20
- Colorado Springs: 19
- Salt Lake City: 18
- Boise: 12
- Fort Collins: 11
- Pittsburgh: 7
- Houston: 5

Colorado's homelessness rate ranks 13th highest among 50 states.

Research Consensus: Exclusionary Land-Use Regulations Decrease Housing Affordability, Reduce Growth

In jurisdictions that heavily restrict their housing supply, there are ...

• Apartment bans.
• Single-unit-per-lot limits.
• Strict parking and floor-area requirements.
• Large minimum-lot sizes.
• Long, conditional permitting processes.

Fewer homes are built.
Housing costs are higher.
Economic growth is slower.

Lessons Learned

Apartments Produce the Most Housing Quickly: Allowing apartment buildings near transit stops and commercial corridors increases housing production and slows nearby rent growth.

Gentle Density/Missing Middle Solutions Take Time: Uptake on lot splits and construction of duplexes, triplexes, and fourplexes is slow but incrementally adds to the housing stock over time.

Success Depends on Streamlining and Strong Compliance Mechanisms: Laws without streamlining of approvals or strong mechanisms to ensure compliance have usually not achieved their goals. Laws creating by-right (not discretionary) approvals and those with a strong compliance mechanism have been more successful.

Natural Affordability Is Essential: Most low and moderate-income households live in market-rate (unsubsidized) housing. The foremost determinant of housing affordability is whether there is enough housing for all or if there is too much competition for each home, which empowers landlords and raises rents. Places that have allowed enough housing to meet demand have contained housing costs; those that haven’t have seen costs rise rapidly. In all markets, the poorest households still need assistance.
Planning Efforts in Several States Combined Sufficient Targets With Strong Compliance Mechanisms

Assess state housing needs and allocate local production targets.

Robust but fair goals ensure that all areas contribute their share toward meeting needs and expanding opportunity.
- California has updated its housing allocation calculations to set higher goals and ensure that all areas participate fairly.

Review and approve compliant local plans and track progress.

Requiring local plans to identify sufficient zones where new development is both feasible and likely gives builders enough options to meet needs.
- New Hampshire and California require jurisdictions to be realistic about zoning for new homes.
- Utah offers a menu of local policy options for jurisdictions to encourage home building.

Reject noncompliant plans and unlock other options to meet needs.

Needs can still be met in noncompliant areas if states provide temporary solutions until local plans comply.
- Massachusetts and California require permits to be issued and allow new mixed-income development in noncompliant areas.
- Utah penalizes noncompliance by reducing transportation funding.
Missing Middle Housing Is Naturally More Affordable, but Home Production Is Slow and Requires Other Changes to Work

Minneapolis legalized duplexes and triplexes in 2018, but these homes only made up about 1% of new homes permitted from 2020-22.

California legalized duplexes and, via lot splits, fourplexes beginning in 2022, but very few of these homes were approved in 2022 under the new law.

Sources: J. Fox, “What Happened When Minneapolis Ended Single-Family Zoning” Bloomberg Opinion (August 20, 2022); Terner Center for Housing Innovation, 2023

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Notes: Rental units may be occupied, vacant for rent, or rented but unoccupied. Contract rent excludes utilities paid separately.
Source: Joint Center for Housing Studies of Harvard University’s analysis of U.S. Census Bureau data.
Allowing More Housing Near Transit and Commerce Can Yield More Homes Quickly

California legalized affordable and mixed-income housing, including mid-rise apartments, on commercial lots. Researchers found that up to 14% of new housing was in commercial zones before the 2022 law, but zoning barriers limited more building. Early estimates indicate that this law could produce far more housing than missing middle bills.

Source: Terner Center for Housing Innovation, 2021

Massachusetts has set minimum zoning capacities for multifamily housing since 2022, based on a community’s proximity to rapid transit and commuter rail stations.

Source: Massachusetts Executive Office of Housing and Economic Development
ADUs Are Naturally Affordable and Have Required Comprehensive, Permissive Laws to Reach Scale

Location on already developed lots, smaller sizes, and fewer amenities mean affordable dwelling units (ADUs) often rent for less than other newly built homes.

Without subsidies, about 1 in 3 ADUs ...
• Are affordable to those making ≤80% area median income (AMI) in 5 high-cost California counties.
• House residents making ≤70% AMI in Vancouver, British Columbia.

Sources: UC Berkeley Center for Community Innovation, 2021; AARP, 2021

With preapproved designs and vendors, ADU permitting takes ...
• 1 day in Los Angeles.
• 1 hour in San Jose.
Manufactured Homes Can Be an Affordable Housing Option

- Cost half as much per square foot as site-built homes, on average, to buy, excluding land.
- Built off-site in a factory setting, compared with housing built on-site.
- Adhere to a national building code set by the U.S. Department of Housing and Urban Development and updated periodically since 1976.
- Economically viable for builders and buyers as starter homes.
Manufactured Home Purchases Make Up Small Share in Colorado

Nationally, in 2019, 2% of home purchase loans were for manufactured homes.

Source: Consumer Financial Protection Bureau
Unique Ownership and Financing Considerations

**Real property**
- Home and land are titled together.
- **Mortgage loan:** Home and land both serve as the collateral.
- 68% of Colorado’s manufactured home loans were mortgages in 2019.

**Personal property**
- Home is titled separately from land.
- Land may be rented or owned independently of the home.
- **Personal property loan:** Only the home serves as the collateral.
- 32% of Colorado’s manufactured home loans were personal property loans in 2019.

Source: Consumer Financial Protection Bureau
Majorities Support Housing Options

Washington residents, 2022
• 78% want more housing options for people in their community.
• 58% support missing middle housing in single-family zones if all zone standards are met.

Bay Area registered voters, 2022
• 52% favor building new housing to address lack of homes and high housing costs.

United States residents, 2019
• 59% favor building more houses, condos, and apartments in their community.

Residents of 26 metros, 2022
• 61% favor allowing 2 and 3-unit homes in residential neighborhoods.
• 69% favor allowing ADUs.

New York state likely voters, 2023
• 67% support transit-oriented development of housing near commuter rail stops.

Sources: Cato Institute; Washington State Department of Commerce; Bay Area News Group; Data for Progress; Zillow