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Affordable housing often costs more to build than market-rate housing — Colorado is closing the gap

Reducing the administrative and regulatory costs associated with building affordable housing can increase Colorado's housing supply. HELEN H. RICHARDSON — DENVER POST FILE

BY SOLOMON GREENE

THE CONVERSATION

Note

In much of the United States, developers spend more to build an affordable apartment for a low-income family than a market-rate one just down the street — sometimes far more. It is one of the central paradoxes of the nation's housing crisis: The affordable homes that lower-income renters need most tend to be the costliest to build.

Note

Colorado is an exception. In a recent study of more than 140 housing developments in California, Colorado and Texas, researchers at RAND, a nonpartisan research organization, found that affordable apartments in Colorado cost about $50 less per square foot to build than market-rate units. Colorado was the only one of the three states where affordable developments cost less to build than market-rate ones.

I've spent nearly three decades trying to understand why affordable housing costs so much to build – and how to bring those costs down. I now direct the Center for Housing Research and Innovative Solutions at the University of Denver, where we study how to

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expand housing supply and affordability in Colorado and across the Rocky Mountain West. Earlier, I led the research office at the U.S. Department of Housing and Urban Development that studies housing markets, affordability and federal housing programs.

Throughout my career, I keep running into the same paradox: The tools designed to make housing affordable are also a big part of what makes it expensive to build.

When rent can't cover bill

Note

At the core of the housing paradox, the numbers just don't add up. Affordable housing programs typically serve households earning well below their area's median income, the midpoint where half of local households earn more and half earn less. Their capped rents fall below what it costs to build a new apartment, especially where land, labor and materials are expensive.

Note

To close that gap, developers assemble multiple layers of public and private subsidies. The cornerstone is the federal Low-Income Housing Tax Credit, which gives investors a tax break in return for financing apartments that must stay affordable for decades. Typically, those units are rented only to households earning at or below 60% of area median income, at capped rents, for at least 30 years. Because the credit rarely covers the whole gap, developers usually combine it with other sources of public money: state credits such as Colorado's own affordable housing tax credit, local housing funds and federal grants.

Each funding source has its own application, deadlines and income rules, and assembling this financing takes lawyers, accountants, consultants and staff time – the so-called soft costs that sit on top of the hard costs, such as concrete, steel and labor.

Studies that compare affordable and market-rate buildings find that soft costs are where a large share of the cost difference originates. Affordable projects tend to have significantly higher soft costs, even when the buildings themselves are similar. In other words, much of what makes an affordable apartment expensive isn't the building – it's the financial and regulatory machinery wrapped around it.

Note

Affordable housing is built largely with public dollars, yet the full cost picture is surprisingly hard to see. A 2023 Government Accountability Office report found that no federal agency has clear authority to collect and compare development-cost data nationwide. The HUD office I led was also responsible for maintaining the government's data on federally assisted housing, and my team routinely struggled with inconsistent and incomplete cost information. Policymakers are making billion-dollar decisions with only a partial view of where the money actually goes.

How Colorado breaks pattern

So why does affordable housing cost less to build in Colorado? The RAND study points to where and how it gets built. Unlike their counterparts in California and Texas, Colorado's affordable developers built for less, per square foot, than the state's own market-rate builders.

In Colorado, a key distinguishing factor is land: Developers paid just $1.50 per square foot, against about $23 for market-rate builders, often on public land offered at little or no cost. That cheaper land, along with lower-cost building sites, more than offsets the higher soft costs that affordable projects still carry everywhere, Colorado included.

What actually lowers costs

In recent years, Colorado has passed a series of laws aimed at easing the frictions that inflate housing costs, especially for subsidized projects, making the state a real-time test of what works. Research already points to several promising levers, none of which requires weakening the protections that keep homes affordable. The most powerful lever is land. Cities and states across the country are increasingly offering public land at little or no cost, reducing one of development's biggest expenses.

Colorado's 2026 HOME Act authorizes school districts, universities, transit agencies, housing authorities and qualifying nonprofits to build homes on land they already own, through a streamlined approval process that limits how restrictive local zoning can be. It lowers two costs at once: the price of the land and the months spent winning approval.

Colorado is also reducing the paperwork that inflates soft costs. In 2022, voters approved Proposition 123, which requires communities that want state housing dollars to act on affordable-housing applications within 90 days. More than 100 jurisdictions, Denver among them, have adopted such fast-track reviews.

The state has also launched a common application that lets developers apply once for money from the state, its housing finance agency and the city of Denver, instead of submitting separately to each. In a recent state survey, developers called this their top priority for reducing soft costs.

Note

Parking rules are another hidden driver. Requiring builders to include parking forces them to construct expensive structures – sometimes $50,000 per space – and give up land that could hold homes. A study by two of my University of Denver colleagues estimated that ending Denver's parking mandates would boost housing construction by about 12.5%, or roughly 460 additional homes a year. Denver dropped its parking minimums in 2025, following a 2024 state law that lifted them near transit.

Note

On construction, Colorado is easing its building and inspection rules to make factory-built housing simpler to permit. Affordable developers are using modular and panelized construction to narrow the gap with market-rate building. These homes, which are assembled in a factory, can cost less and get built faster. While leading research at HUD, I toured affordable developments built this way, including one in Detroit that cost roughly 30% less than comparable homes nearby. The savings matter most in rural and mountain areas, where labor is scarce and the building season is short.

The country still struggles to measure what actually drives housing costs. Building stronger regional data, and the partnerships among agencies, lenders, universities and developers to use it, can show where rules add value and where they instead add delay and cost.

Affordable housing's impact

Stable, affordable housing is linked to better health, stronger school performance and higher lifetime earnings for children. In one national study, each additional year that a child spent living in assisted housing as a teenager raised their adult earnings by 3% to 6%. So every dollar lost to unnecessary cost – the delay and duplication that make housing no better – is a home that never gets built for a family who needs one.

Affordable housing will always require some subsidies: When the rents that low-income households can pay fall short of what building costs, public or philanthropic dollars must close the gap. But those costs are not fixed. Colorado's experiment is a reminder that the gap between affordable and market-rate housing can be narrowed, but only by treating the financial plumbing as seriously as the bricks and mortar.

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