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Affording Colorado: Housing remains out of reach for many *curr re*

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Editor's note: Affording Colorado is a collection of stories examining the growing financial pressures facing residents across the state, focusing on three key challenges that strain household budgets amid recent policy efforts to address them: childcare, housing and utility costs. The stories explore how Colorado families struggle with the high cost and limited availability of childcare, forcing parents to make difficult decisions about work and family finances; why housing affordability remains out of reach for many renters and prospective homebuyers even as lawmakers pursue changes; and how rising utility bills for electricity, gas and other essential services are creating an additional burden as annual rate increases outpace many household incomes.



Picture this. The year is 1996. The Colorado Rockies are in their third season. The average household income in the Denver metro area is just over \$40,000, and single-family home in the Denver metro area costs about \$120,000 on average.

Now, flash forward 30 years.

The Rockies have yet to win a World Series, the average household income in the Denver metro is about \$108,000, and single-family homes in the area cost about \$650,000 on average.

A home that previously cost a family three times the household income now costs about six years' worth of income, landing Colorado among the most expensive states in the nation for homeownership. The immediate questions preoccupying policymakers and experts are what the state and local governments can do to spur more housing development, which presumably would lead to more affordable

Create more housing to offset prices (Note)

housing options for some buyers, particularly those who are purchasing homes for the first time. Some have pointed to the usual suspects, notably speeding up the permitting processes and getting rid of red tape. Others have argued for fewer restrictions — or at least not adding more regulations — in order to build homes, pointing to energy or carbon mandates, for example, that they said have only made homes costlier. State legislators, meanwhile, have pursued the idea of “density,” while local governments countered that such statewide mandates violate home rule protections — just one of the tug-and-pull between state and local leaders over how best to approach housing. Still, others have maintained that the state and local governments are pursuing the wrong remedies. That is, the big policies adopted over the years, they said, won’t actually make a significant dent on the housing question.

Broadly speaking, competing camps have argued that governments should simply let market forces dictate housing development and pricing and state interventions won’t work or maybe even make things worse — or countered that, at the very least, some level of or perhaps even robust government interjection is needed to make housing affordable.

Colorado’s housing market evolves

Following the housing crash and subsequent Great Recession in 2008, Colorado’s housing market did well, considering the circumstances, according to Phyllis Resnick, an economist and executive director of the Colorado Futures Center.

The state had an oversupply of housing in the mid-2000s but those units were quickly occupied following an increase in out-of-state migration during the 2010s. *Not!*

Heading into the 2020s, Colorado’s housing market took a significant hit following the COVID-19 pandemic. At the pandemic’s height, governments across multiple levels shut down businesses and curbed gatherings, and companies adopted among other things, remote work.

A combination of supply-chain issues, historically low interest rates and private equity buying up single-family housing led to home prices surging by 35% in the Denver metro area, according to the Colorado Association of Realtors.

“The combination of those factors sort of led us to where we are today, which is a housing market that’s become very expensive,” said Resnick.

In response, the Colorado legislature passed a number of bills during the 2020 and 2021 sessions aimed at aiding renters and homeowners during the pandemic, including House Bill 20-1410, which allocated \$20 million in funds from the federal CARES Act to housing assistance, and 2021’s House Bill 1271, which established programs within the Department of Local Affairs to provide grants for local governments to promote the development of “innovative affordable housing strategies.” *Not*

In 2022, Colorado voters approved Proposition 123, which earmarked about \$300 million a year in state income tax revenue for affordable housing initiatives administered by the Department of Local Affairs. More than six years after the pandemic began, Resnick said she sees signs that Colorado’s housing market might be improving.

“I won’t necessarily say we’re going to become a cheap, affordable housing market, but we’re not really seeing any significant appreciation in the Case-Shiller Index, which is the index I watch to look at housing prices,” she said. “In fact, it’s been either flat or slightly declining over most of the months in the last year.”

A K-shaped market

Yet even with the pandemic in the rearview, Colorado still faces a significant housing shortage, particularly for low to moderately-priced single-family units.

According to a report by the State Demography Office last year, Colorado was short about 106,000 housing units in 2023, the most recent year with available data. To prevent that shortfall from growing, the demography office estimated that about 34,100 new owner- or renter-occupied homes — not vacation or second homes — need to be built each year over the next decade.

Kelly Moyer, a Realtor on the Front Range and spokesperson for the Colorado Realtors Association, said Colorado is currently experiencing what's known as a K-shaped market, in which more affluent buyers are driving up luxury home sales, while lower- and middle-income earners struggle to afford starter homes.

This creates a domino effect, she said, in which families looking to sell their starter homes can't find buyers who can afford them.

"If the first-time people can't get in, then the second-time people can't move up," she said. "It's not like the affordability crisis has ruined the Denver market, but it has impacted it, because what it did was it shrunk the pool of people who can participate in it."

Resnick said it's uncommon to find new builds in the low- to moderate-income range because they don't offer developers any financial incentive.

"Developers are private actors, right?" This is a business for them, so they will build if they feel like there's an opportunity to make it profitable," she said. "If they're looking at a potential opportunity and the numbers don't work out, they're not going to go forward — because they're not going to knowingly engage in something that's going to lose money. So, then the conversation becomes, if it's not profitable to build housing in certain areas, is there a role for policy to come in and try and support that, either through some sort of tax incentives or some sort of subsidization?"

Andrea Kuwik, director of policy and research at the Bell Policy Center, said policymakers have pursued measures to encourage the construction of moderately priced housing and lower rents for Coloradans who are not ready to buy a home or choose to rent.

She pointed to Proposition 123 on the affordable housing front and House Bill 25-1090, which prohibited what supporters described as most "junk fees" or additional charges landlords impose that aren't disclosed when a lease is signed, and characterized the legislation as a win for renters.

Kuwik said she believes some of these regulations have helped lower rent costs in major metropolitan areas like Denver, which saw a 3% decrease from last year, according to Realtor.com.

However, Kuwik said it's still not enough for many renters in the state.

"The challenges for a lot of those lower-income and even moderate-income people who are renting are still really real," she said. "Even if you say, 'Yeah, we're going to decrease rent,' which is awesome, there are still lots of challenges for those folks. It's like if you had challenges to begin with and then you lower it a little bit, that doesn't mean the challenge goes away. It means maybe it's not quite as bad as before, but there are still lots of challenges."

Right diagnosis, wrong prescription?

Elected officials have spent years tackling Colorado's affordability challenges, with mixed results.

Since the pandemic, lawmakers have pursued a range of housing-related policies. They approved new restrictions and requirements for construction defect claims involving multifamily housing, tackled what many consider the biggest driver of the state's rising insurance premiums, streamlined the approval process for affordable housing projects on nonprofit-owned land, and required certain municipalities to allow homeowners to build accessory dwelling units on their properties, among other measures.

The effort has extended beyond the legislature. Last spring, Gov. Jared Polis unveiled a multistep plan that he said could save the average Colorado homeowner about \$800 a year on insurance.

Whether those policies will produce meaningful change remains unclear, said Kuwik.

"One of the things that we see around housing policies is that it just sometimes takes a while for some of these policies to start hitting," she said. "We're starting to pass some policies that could make some more real immediate difference while we wait for that longterm stuff to kick in."

Resnick argued that local governments have the greatest power to drive meaningful change, as they control zoning and land-use rules, approve permits and set building codes. Still, she said the state can play a major role by providing financial support.

"Where I think the state could probably participate in making the biggest dent would be in that segment of the population that is never going to be able to afford stable housing without some sort of economic support," she said. "That's always been kind of my sense of where state government can make the most difference is coming to the table with money to support those kinds of populations, which is not typically what we've done."

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Yet builders who work with higher-density projects said that the state's medicine doesn't treat what ails the market for affordable homes.

Randy Carpenter, former president of the Home Builders Association of Metro Denver and a former senior executive for two affordable homebuilders, earlier discussed factors that drive up home prices. Those issues, builders have said, often have little to do with the regulatory changes currently being bickered over by state and local governments.

"If young people want to buy, condos aren't really an option here," said Carpenter, who headed KB Home Colorado before retiring and directed sales for Pulte Homes Colorado.

He said increased fees and regulations are adding to costs.

To some, the cost of housing regulations came to the fore in the aftermath of the Marshall fire, when the Louisville City Council agreed to find a way for residents whose homes were destroyed to opt out of net-zero building code requirements that were implemented just weeks before the deadly Dec. 30 blaze. The requirements of the new code, dubbed the 2021 International Energy Conservation Code, required electric vehicle charging ports, "electric ready" requirements, "solar ready" requirements and stringent insulation standards, among others. Supporters said the new requirements would lead to energy savings.

The estimates of how much extra those requirements would cost had varied wildly — anywhere from \$19,867 more for a 2,200-square-foot home to as much as \$77,000. *Note*

Others have pointed to condominiums as the missing recipe and whose developments Colorado has struggled to spur. *see*

Two rounds of measures recently passed by the Colorado legislature sought to address the problem, but builders and Realtors said that liability costs remain prohibitive.

State government faces budget constraints

While lawmakers from both parties have voiced support for addressing housing affordability — they still differ in their prescriptions — persistent budget shortfalls have limited the state's ability to invest more money.

Colorado has faced budget deficits exceeding \$1 billion in each of the past two years and could confront another next session, largely due to soaring Medicaid costs. *Note*

Meanwhile, Proposition 123 has so far distributed nearly \$600 million to 586 grant recipients, supporting the development of 11,341 housing units, according to an impact dashboard.

Even voter-approved housing funds are not immune to budget pressures. During the last legislative session, the Joint Budget Committee approved a plan to transfer \$130 million from the Affordable Housing Finance Fund to the General Fund for the next fiscal year.

Some lawmakers questioned whether the state should redirect money voters specifically approved for affordable housing. JBC members countered that Proposition 123 allows those dollars to be used elsewhere when the state does not collect a TABOR surplus.

The \$130 million would come from the share of Proposition 123 funding allocated to the governor's Office of Economic Development and International Trade, which distributes the money through the Colorado Housing and Finance Authority.

The transfer was scheduled for June 30, keeping the money within the 2025-26 fiscal year. The funds would then be available for the 2026-27 budget, which is expected to benefit from a TABOR surplus. Beyond policy decisions, factors such as supply chain disruptions, broader economic conditions and interest rates also shape housing affordability. Those variables make it difficult to assess the precise impact of any single measure, Resnick said.

She added that evaluating housing and other social-policy initiatives often takes years because results emerge gradually. At the same time, economic and social trends can influence outcomes, making it difficult to determine how much change can be attributed to any one government policy.

