

State tops U.S. when it comes to cost hikes

Insurance premiums and property taxes add to homeowners' burden

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NEW ORLEANS>> If owning a home wasn't burdensome enough, Colorado has registered the biggest increase of any state when it comes to how much extra owners must set aside to cover insurance and property taxes.

Lenders typically require borrowers to forward money for those expenses each month, which they hold in "escrow" to cover future payments. Those escrow payments are rising at a much faster rate than core mortgage payments, and those increases hit existing homeowners, not just new buyers, hard. Nationally, homeowners faced a 17% increase in the average escrow payment last year compared with this year, according to a study from Cotality, a real estate research firm formerly known as Core Logic.

Colorado led the country with a 31% increase. Other states with high increases include Louisiana at 28%, Wyoming at 26% and Montana and Alabama at 24%.

"In markets like Colorado, for example, it is the top market, it's not just insurance, but it's taxes as well," said Selma Hepp, chief economist with Cotality, who was speaking at the National Association of Real Estate Editors in New Orleans.

Colorado experienced widespread and dramatic increases in residential property values between mid-2020 and mid-2022, which resulted in nation-leading property tax increases that forced political leaders to try and soften the blow.

Although the increases in the assessment cycle that followed have been much tamer, the higher costs are now baked in. Incomes, while rising, haven't gone up enough to compensate.

On top of that, the state has experienced substantial increases in natural disaster claims, from large hailstorms to the late 2021 Marshall fire, which destroyed more than 1,000 homes and caused more than \$500 million damage, making it the most destructive in state history.

Higher escrow payments strain existing homeowners, leaving them more vulnerable if there is a downturn or other economic disruption, Hepp said. Although homeowners in Colorado have built a large amount of equity, and delinquencies are low, borrowers could face higher strains if their incomes are disrupted.

Higher escrow costs can keep first-time buyers on the sidelines by reducing the amount they can borrow to purchase a property. That appears to be showing up in a dramatic increase in the number of unsold homes in metro Denver and across the state.

That said, higher home prices and mortgage rates, which are the key headwinds for first-time buyers, shouldn't create as much friction in the months ahead, predicts Lawrence Yun, chief economist with the National Association of Realtors, who joined Hepp on the panel.

Rates for a 30-year mortgage should average about 6.4% through the remainder of the year before moving closer to 6.1% next year, Yun predicted.

He doesn't forecast a recession and expects the Federal Reserve, which held its benchmark rate steady Wednesday, to signal cuts later in the year, which should set the stage for lower mortgage rates.

Yun expects home prices to rise 3% this year and 4% next year on average, but markets such as Colorado that saw the strongest job gains and in-migration coming out of the height of the pandemic could see home prices decline.

"Some markets will remain weak, given inventory buildup and increases in non-mortgage costs," Yun said.

Home price declines have emerged in Florida and parts of Texas. Colorado, which has seen flat prices, may soon join those states.

A key sign of emerging weakness in Colorado is showing up in the number of unsold homes. Statewide, there were 31,268 active listings in May, up 27% from May 2024, according to the Colorado Association of Realtors.

"We continue to see a trend of higher inventory of homes on the market and increasingly, data shows we are in a buyer's market," said Durango-area Realtor Heather Erb in comments included with the report.

Despite the rising selection, the state saw 1.8% fewer sales in May than it did in the same month a year earlier.

All the extra inventory is putting pressure on sellers. About four in 10 had to cut the price on their listings after failing to generate enough interest last month, according to Zillow.

One reason that buyers can't step forward despite the higher inventory is the ongoing lack of affordability.

Orphe Divounguy, a senior economist at Zillow also speaking at the NAREE conference, said the typical housing payment has doubled since 2019 in the United States.

For the typical household to afford the typical home and not be "burdened" or spend more than 30% of their pay on housing, they would need to ask their employers for an \$18,000-a-year increase.

The pay gap is much larger in constrained markets such as California and popular markets such as Denver and Austin, Texas, that saw a big run-up in prices from 2020 to 2022.

For years, financial advisers have chided younger generations for spending on nonessentials, led by David Bach, who created the concept known as the "latte factor."

He argued that if people could cut out small and repeated expenses from their budgets — daily latte purchases being a prime example — they could save more aggressively and achieve their larger goals, including purchasing a home.

But Starbucks is still in business, and Divounguy called the latte factor a myth. The gaps between what people make and what homes cost to purchase are simply unbridgeable with small adjustments.

"If you bought a \$10 Frappuccino every day, you know, and you gave up your \$10 Frappuccino, it would take about 240 years to get enough money to save up for a down payment in San Francisco," he said.

The lack of affordability means that renters are staying renters for longer. The median age of a renter in the U.S. is now 42, compared to 36 in 2000, per Census Bureau numbers.

"Renters are starting families, and they're doing that renting as opposed to buying their first home," Divounguy said.

To have enough space to do that, older renters are moving into single-family home rentals as they start their families. Those rent for about \$3,000 a month in Denver, which is \$800 less than a typical mortgage payment on a comparable home, assuming a 10% down payment, according to Zillow.

There has also been more construction of multifamily rentals, which is putting downward pressure on rents. About six in 10 rental listings in Denver offer freebies or concessions to potential tenants, Zillow said.