Housing: Calling Colorado Home

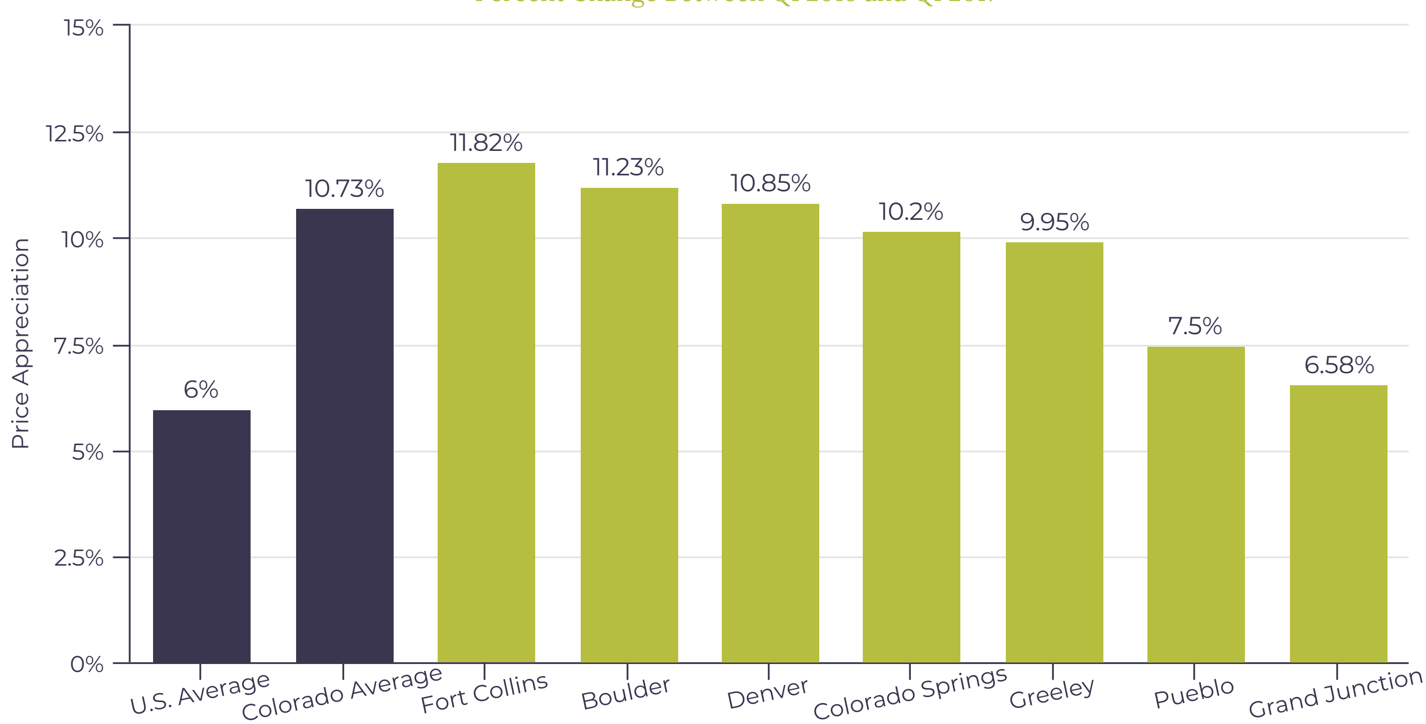
Colorado is an attractive place to live, thanks to a booming economy and vast recreational opportunities, but one major obstacle stands in the way of many families achieving economic opportunity: affordable housing.

An affordable home promotes opportunity as it not only provides shelter, but supports educational success, achieves asset building, and heightens well-being. In addition, housing is integral to two-generation success, as children living in safe and healthy housing have higher test scores, a higher likelihood to obtain job training or a postsecondary degree, and higher average lifetime earnings. National statistics from Enterprise Community Partners show for people with stable housing, health problems lessen and wellness is elevated, with Medicaid costs reduced by 45 percent.

Economists consider housing affordable if renters or homeowners spend 30 percent or less of their income on rent or mortgage payments. Those who spend over 30 percent are considered cost burdened, while renters and homeowners spending 50 percent or more are extremely cost burdened. This leaves individuals with less to spend on other crucial costs, such as food and child care; nationwide, cost-burdened families often spend nearly half as much on health care and 40 percent less on food.

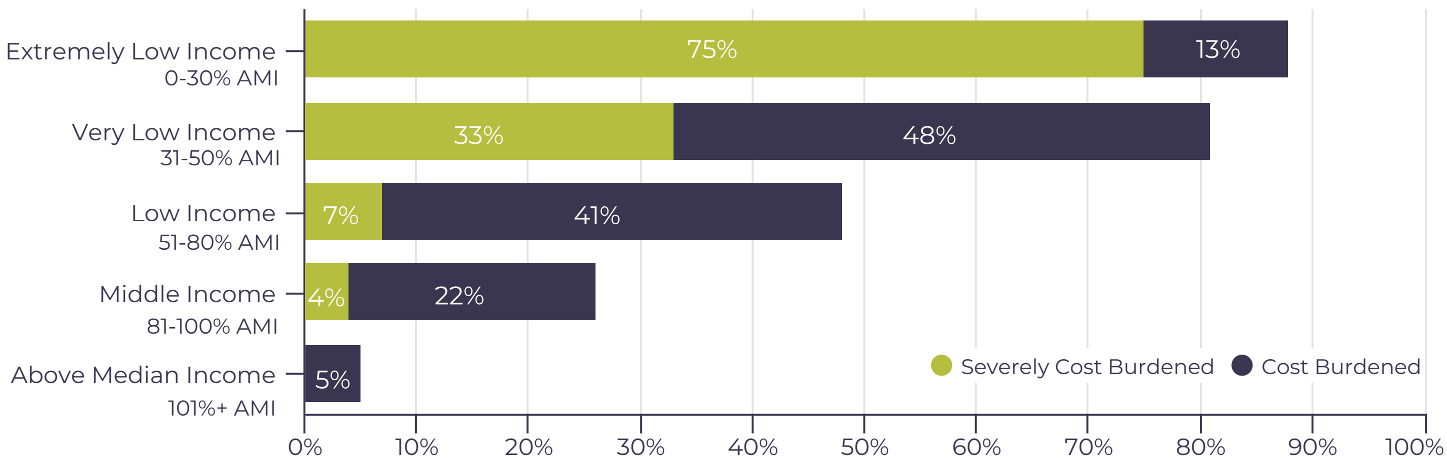
As the number of people moving to Colorado is outpacing the growth in available housing units, especially along the Front Range, many families struggle to find viable options. In 2015, Colorado built 26,000 housing units, but this still lags behind growing household formations of 33,000 to 35,000 per year. The increasing number of households in Colorado and dearth of construction for multi-family units is part of the reason for the current lack of affordable housing.

Home Price Appreciation in Colorado
Percent Change Between Q1 2016 and Q1 2017



Source: Colorado Office of State Planning & Budgeting 2017, The Colorado Outlook: Economic and Fiscal Review

Which Colorado Renters Are Most Cost Burdened?



Source: National Low Income Housing Coalition. 2017 State Housing Profile: Colorado

The need for affordable housing is felt throughout Colorado: An opportunity survey conducted by the Bell across the state shows Coloradans consistently rank affordable housing as one of the top factors preventing them from getting ahead economically.

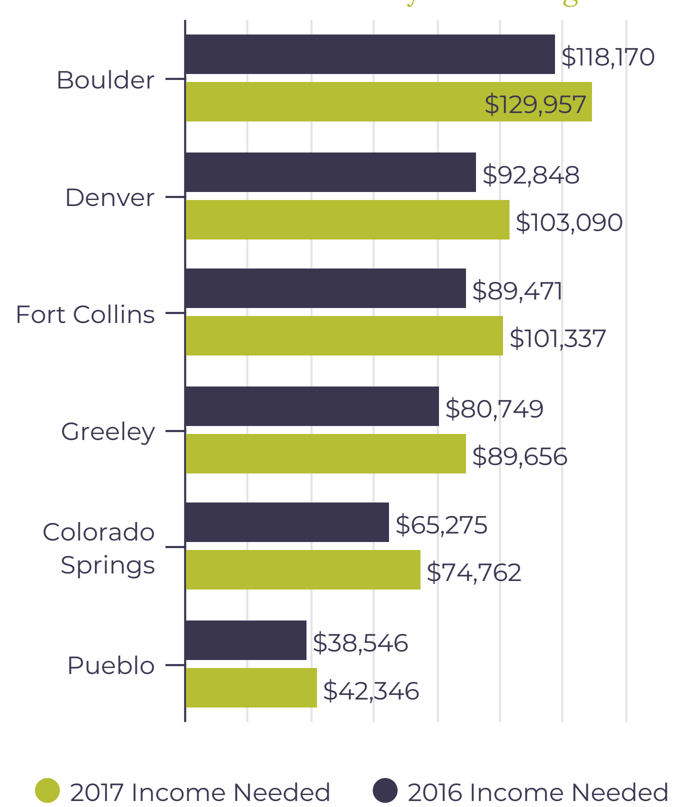
Homeowners & Renters Both Affected By High Housing Costs

A report from the Federal Housing Finance Agency finds home prices in Colorado grew faster than in any other state except Washington state in the second quarter of 2017. Additionally, out of the top 20 metropolitan areas with the highest rate of house price appreciation in the country, three are in Colorado: Fort Collins, Denver, and Boulder. All Colorado metro areas are experiencing price appreciation above the national average, particularly those along the Front Range.

According to a National Housing Conference's report, the income needed in 2017 to afford homeownership continued to increase, growing by almost double-digit rates in Colorado's metro areas , as shown in the graphic to the right. High housing costs constrain economic growth, as most workers cannot afford to live in the city and often have less money to contribute to the surrounding economy.

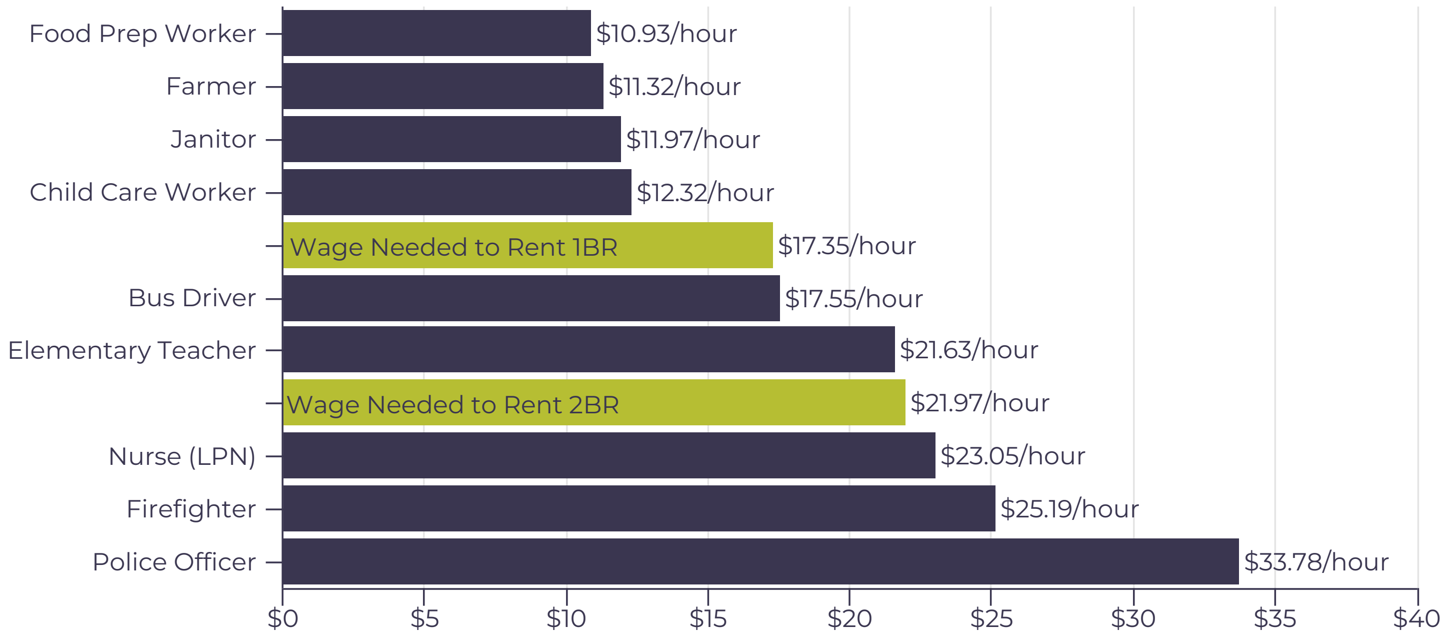
Renters also face high costs. The Colorado Housing and Finance Authority (CHFA) reports nearly half of all Colorado renters are considered cost burdened, with an additional 24 percent severely cost burdened. The majority of Coloradan renters earning less than half of the area median income (AMI) are experiencing cost-burdened housing prices. From the National Low Income Housing Coalition's (NLIHC) 2017 Out of Reach report, rent across most of Colorado is increasing faster than annual income. The fair market rent (FMR) for a two-bedroom rental in Colorado is $1,143, ranking 12th highest for rental units in the nation.

Income Needed For Homeownership in Colorado Metro Areas Increases by Double Digits



Source: National Housing Conference, Paycheck to Paycheck 2017: Change in Income Needed to Afford a Median-Priced Home

Which Colorado Professionals Can Afford to Rent in Colorado?



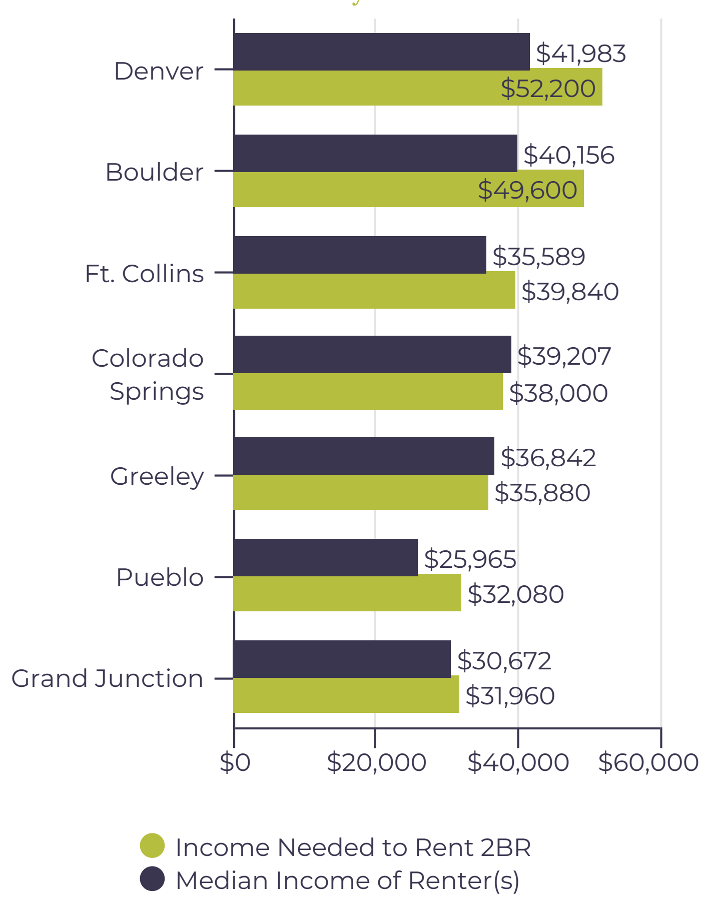
Source: Bureau of Labor Statistics, State Occupational Employment and Wage Estimates: Colorado, May 2016. National Low Income Housing Coalition, Out of Reach 2017: Colorado

When broken down by hourly wage, a Colorado household must make $21.97 per hour to afford rent and utilities; however, the average renter wage in Colorado is only $17.13 per hour. At Colorado's 2017 minimum wage of $9.30 per hour, one would need to work 95 hours a week, or 2.4 full-time jobs, to afford a two-bedroom rental. Metro areas such as Boulder and Denver require an even higher hourly wage for affordability at $23.85 and $25.10, respectively.

For those Coloradans with "everyday" jobs, renting is often out of the question , as illustrated in the graphic above. According to the Bureau of Labor Statistics' findings, out of nine occupations, six cannot afford a two-bedroom rental based on the median wages paid.

Currently, Colorado has a shortage of nearly 121,000 affordable rental units for those who are extremely low-income (ELI), making 0 percent to 30 percent of the AMI. Out of Colorado's 63 counties, none have an adequate supply of affordable housing for ELI renters. Furthermore, 28 counties, mostly mountain resort and metropolitan areas, including the Front Range, Eagle, Summit, and Grand counties, have less than one-third of the supply needed.

Two-Bedroom Apartments Cost More Than Renter Incomes in Many Colorado Metro Areas



Source: National Low Income Housing Coalition. Out of Reach 2017: Colorado

When the price of housing far exceeds people's ability to pay, it can result in dire consequences. A University of Denver report says, "A recent influx of new residents to Colorado combined with a steady decline of available low-income and affordable housing has contributed to a 600 percent increase in the homeless population from the late 1990s to 2010."

While homelessness results from various reasons, unaffordable housing is one primary cause. Unfortunately, this trend hasn't dissipated as our state's economy has grown. Colorado has seen a 6 percent jump in homelessness according to a 2016 Department of Housing and Urban Development (HUD) report. Additionally, Colorado has the country's largest increase in homeless veterans — up 24.3 percent between 2015 and 2016 — and an estimated 350 unaccompanied youth experiencing homelessness on any given night.

Housing Disparities

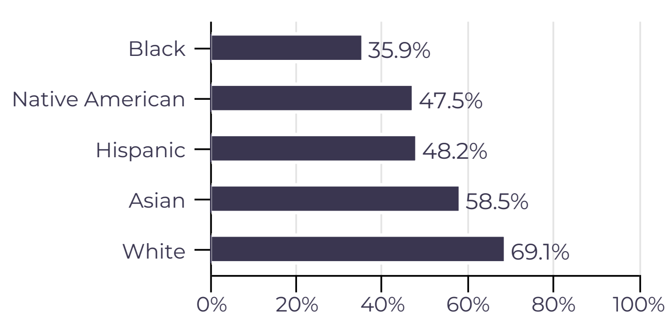
Colorado's housing market particularly impacts certain groups, creating further inequities in our state.

Race

White Coloradans are almost twice as likely as black Coloradans to own a home. Although Colorado's Hispanic population is the fastest growing, less than half own a home. This racial inequity trend impacts Colorado renters as well, with half of all black, Hispanic, and Native American renters experiencing cost-burdened housing.

According to a recent report from Colorado Center on Law and Policy, evictions

Colorado Homeownership by Race



Source: The Colorado Trust. The Racial Wealth Gap in Colorado, February 2016

disproportionally affect people of color. In Denver specifically, most evictions occur in neighborhoods with a high percentage of people of color and areas experiencing gentrification. These neighborhoods include northeast Denver's Elyria Swansea, Clayton, North Park Hill, and west Denver's Westwood, Valverde, Ruby Hill, and Sun Valley.

Gender

Although Denver and Aurora are two of the top 10 cities nationwide with the lowest gender housing gap, women can still expect to pay 3 percent to 4 percent more of their income on a one-bedroom rental than men. In Colorado Springs, women pay 11.5 percent more than men.

According to the U.S. Census Bureau, women are nearly five times more likely to head a single-parent household than men. In Colorado, two-parent households are 1.7 times more likely to own a home than one-parent households. When accounting for these statistics jointly, this means Colorado women who are single parents are less likely to build wealth through homeownership. Additionally, unaffordable housing is a primary barrier for women and children escaping domestic violence, leading to high rates of homelessness. This barrier is often exacerbated by negative landlord references because of previous noise disturbances related to abuse.

Age

The housing market affects all age groups, though individuals over 65 in Colorado bear the greatest housing burden. Nearly half of these renters and 26 percent of homeowners are cost burdened. Nationwide, households carry more mortgage debt into their retirement years than they did a decade ago. The number of homeowners aged 65 and over with mortgage payments more than doubled since 1992. For homeowners aged 50 to 64 with mortgages, cost-burdened homeownership increased to 45 percent, while cost-burdened homeownership increased to 61 percent for homeowners aged 80 and older.

Additionally, homeownership rates for households aged 25 to 34 have decreased more than 9 percent since 2004, now standing 3 percent below the 1993 level. This correlates with a 5 percent drop in median household income for 25- to 34-year-olds since 2004. For those aged 35 to 44, the decrease in homeownership has been most severe, dropping 5 percent and currently down to 59 percent, a level not seen since the 1960s.

Colorado has begun adopting affordable housing policies; however, our state falls behind others for funding and implementation. Putting aside the issue of construction, Colorado must increase public funding to support affordable housing.

Low-Income Housing Tax Credits (LIHTC) give private companies incentives to build affordable housing units for lower-income Americans. According to a report by CHFA, in 2016 alone, Colorado's state LIHTC financed over 1,000 affordable rental units. This program has been effective, with recent state legislation extending the credit of $5 million annually through 2019. Only 17 states have their own state-run LIHTC, with Massachusetts and Connecticut investing twice as much or more than Colorado.

Colorado created a state housing trust fund (HTF) to finance the construction of affordable homes. However, to be effective, this fund needs a consistent, reliable funding stream. Twenty-eight states have dedicated public revenues to fund their HTFs, most through real estate transfer taxes or document filing fees. However, TABOR prohibits new or increased real estate transfer taxes. As a result, Colorado is one of 10 states that doesn't have consistent funding streams. Certain Colorado localities, however, have developed their own local housing trust funds, such as Summit County and Telluride. Localities that established HTFs before TABOR was enacted are able to use real estate transfer taxes, but cannot raise the rates. Those that implemented a housing trust fund after TABOR have to use other sources, such as lodging or sales taxes.

Enacted in 34 states, real estate transfer taxes impose a small charge at the state or county level when a housing title transfers owners. Although Colorado does have a real estate transfer tax, it's the country's lowest at .01 percent — other states' range from .05 percent to 3 percent.

Manufactured housing (MH) are homes built in a factory then transported to the owner. Though MH offers an affordable homeownership choice for lower-income Coloradans, certain obstacles limit families' ability to build assets through these homes. According to the Colorado Center on Law and Policy, MH units are classified differently than traditional homes, subjecting buyers to higher interest rates and short-term loans. Additionally, MH units are taxed differently than real estate, causing MH owners to pay an estimated $1,000 more in taxes than if the home was built onsite. In comparison, site-built homes pay a smaller documentary fee, which amounts to just $6.50 to $7.00 on average.

Recommendations

Colorado should follow other states and increase the state Low-Income Housing Tax Credits to meet the demand of affordable housing options.

Currently, TABOR prohibits new real estate transfer taxes, but if amended, making a small increase in Colorado's real estate tax from .01 percent to .1 percent has the potential of increasing state revenue by $55.6 million in fiscal year 2019-2020, providing adequate funding for Colorado's housing trust fund.

Another way to provide funding to the housing trust fund is to increase the document filing fee, a fee imposed during the filing of deeds, mortgages, and property transfers. In 2017, HB-1309 would've raised the fee from 1 cent to 2 cents for every $100 of a transaction and generated an estimated $7.6 million for affordable housing. The bill passed the House, died in a Senate committee.

Colorado should classify manufactured housing units as real residential property, lowering the taxes paid by buyers and providing manufactured housing owners with access to fair and equal financing of their homes.