COMMON SENSE INSTITUTE

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COLORADO HOUSING COMPETITIVENESS INDEX

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ABOUT THE AUTHORS

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Colorado's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Coloradoans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

FREE ENTERPRISE COMPETITIVENESS INDEX

CSI issues a Free Enterprise Report each year. The report assesses the state's competitiveness relative to forty-nine other states and the District of Columbia and analyzes eight policy areas: education, energy, healthcare, housing, infrastructure, public safety, state budget, and taxes and fees. This report is intended to provide additional details on the Housing Competitiveness Index not published in the Free Enterprise Report.

The competitiveness indices should be interpreted as follows: an increase (decrease) in an index indicates increased (decreased) competitiveness relative to the other forty-nine states and the District of Columbia. An index value may decline even as a state's performance improves in absolute terms, or the other way around—for example, if Colorado's labor force participation rate increases but other states' rates increase by more, Colorado's competitiveness in terms of its labor force participation rate will decline.

Key Findings

- **The number of average work hours necessary to afford the average rent is higher in Colorado than in any other state in the country.**
- **The number of hours of work required to pay the monthly rent rose from 45 hours in 2011 to 87 in 2023—a larger increase than in most other states.**
- **Colorado's Housing Competitiveness Index declined from 61 in 2011 to 56 in 2023.**
- **Permitting has not kept up with population growth from 2011 to 2023.**
- **The housing deficit has increased as a share of Colorado's population.**
- **The average work required to pay the average monthly mortgage increased from 44 hours in 2011 to 96 hours in 2023—a 118% increase. This is primarily the result of housing price growth outpacing wage growth.**

COLORADO'S HOUSING COMPETITIVENESS INDEX

The Housing Competitiveness Index consists of four metrics that capture the supply and affordability of housing.

- The percentage of permits as a share of the housing deficit/surplus
- The housing deficit/surplus as a percentage of the population
- The hours required (at the average wage) to pay the monthly mortgage based on 30-year mortgage rates for the average priced home
- The number of hours of work required to pay the monthly average rent at the average wage rate

Each metric is ranked relative to all fifty states and the District of Columbia, then the four ranked metrics are summed at equal weights. The resulting value is ranked again to produce an aggregate measure of housing competitiveness as shown in **Figure 1**. An increase in the housing competitiveness index is a positive qualitative change—i.e., **high values (approaching 100) indicate high competitiveness.**

Overall, Colorado's Housing Competitiveness Index declined from 61 in 2011 to 56 in 2023, primarily as a result of large home price and rent increases relative to other states. Permitting activity has increased in recent years but not enough to eliminate the permitting or housing deficits.

FIGURE 1 – COLORADO HOUSING COMPETITIVENESS INDEX

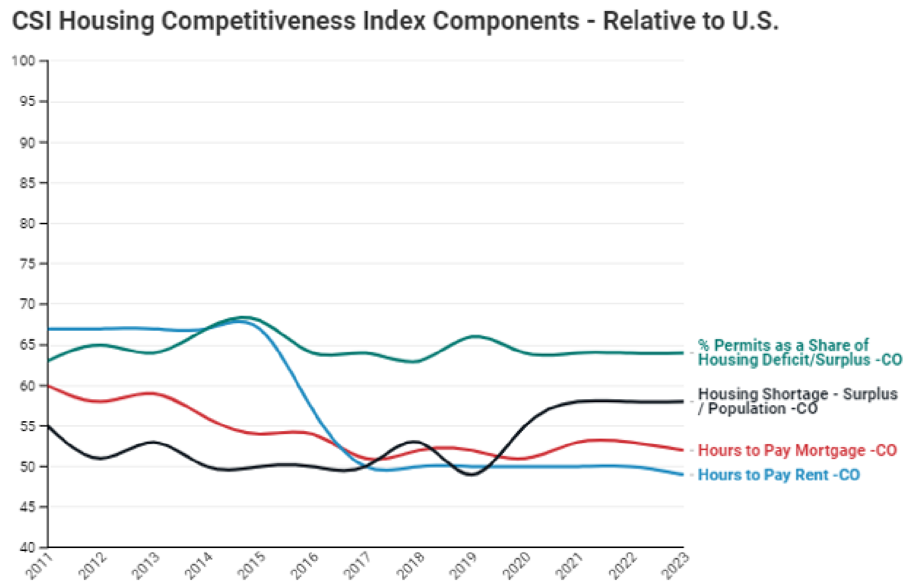
Figure 2 shows each of the four components included in the Housing Competitiveness Index.

Two of the indices declined, while another two rose moderately. This lowered the total index ranking for Colorado's Housing Competitiveness Index.

- The index of the housing shortage as a share of the population **increased** from 55 in 2011 to 58 in 2023
- The index of the percentage of permits as a share of the housing deficit/surplus **increased** from 63 to 64
- The index of the hours required to pay the monthly mortgage **declined** from 60 to 52
- The index of the hours of work required to afford the monthly rent **declined** from 67 to 49

Each metric underlying the competitiveness index is shown in conjunction with its indexed value in **each of the following index component charts.**

FIGURE 2 - COLORADO HOUSING COMPETITIVENESS INDEX COMPONENTS



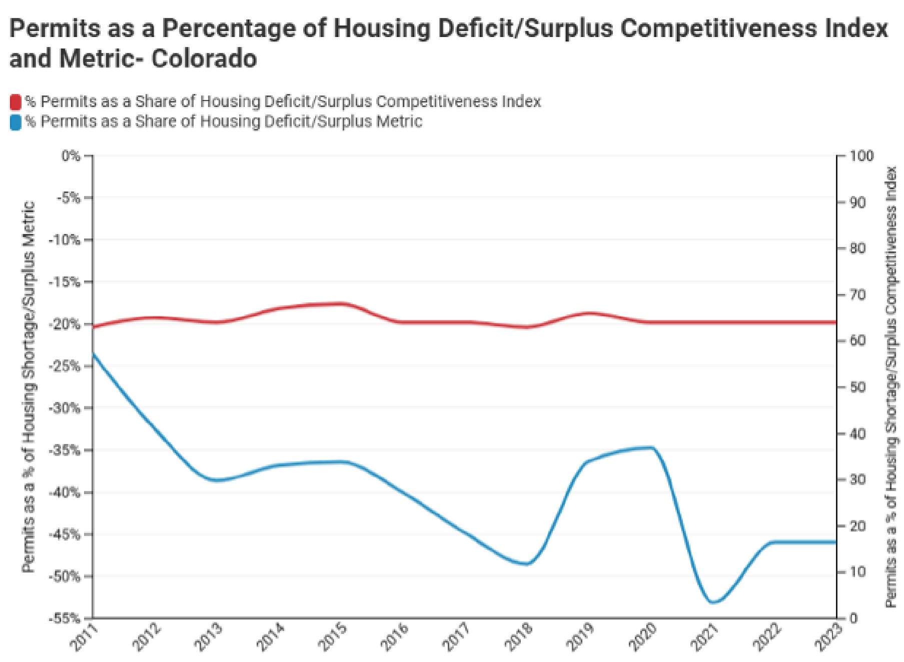
A Colorado competitiveness metric may rise at the state level, however, fall relative to the U.S., thus decreasing Colorado's overall competitiveness. The inverse may also be true.

PERMITS AS A SHARE OF THE HOUSING DEFICIT/SURPLUS COMPETITIVENESS INDEX AND STATE METRIC

The Housing Deficit/Surplus Competitiveness Index rose slightly from 63 in 2011 to 64 in 2023 (**Figure 3**).

This was the result of other states experiencing similar changes in their permits as a share of housing deficits. In 2011, when Colorado had a deficit of housing and was issuing additional building permits, the metric was -23.5%. By 2023, the deficit worsened despite Colorado issuing more permits and the metric fell to -45.9%. Even as the permitting share of the housing deficit fell, the competitive index rose because other states performed worse.

FIGURE 3 - PERMITS AS A PERCENTAGE OF HOUSING DEFICIT/SURPLUS

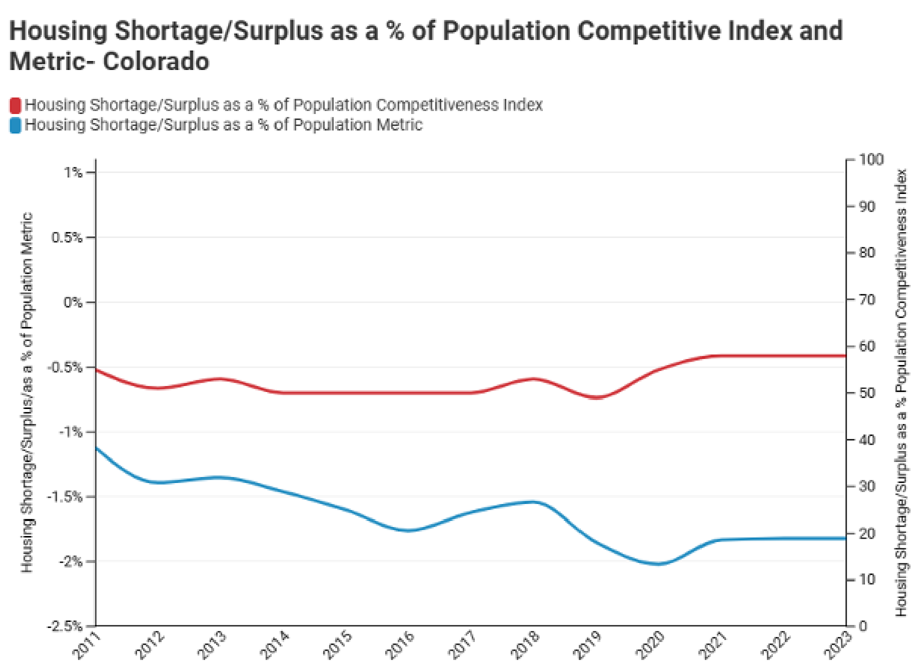


HOUSING DEFICIT/SURPLUS AS A PERCENT OF POPULATION - COMPETITIVENESS INDEX AND METRIC

The Housing Deficit/Surplus as a Percent of Population Competitiveness Index rose from 55 in 2011 to 58 in 2023 (**Figure 4**).

This was the result of a larger decline in the housing deficit as a share of population in other states. In 2011, the metric was -1.12% but had fallen to -1.82% in 2023 because the housing deficit grew faster than population. If other states' underlying metrics rose or declined more slowly, Colorado's index value would have fallen.

FIGURE 4 - HOUSING SHORTAGE/SURPLUS AS A PERCENTAGE OF POPULATION – COMPETITIVENESS INDEX AND METRIC



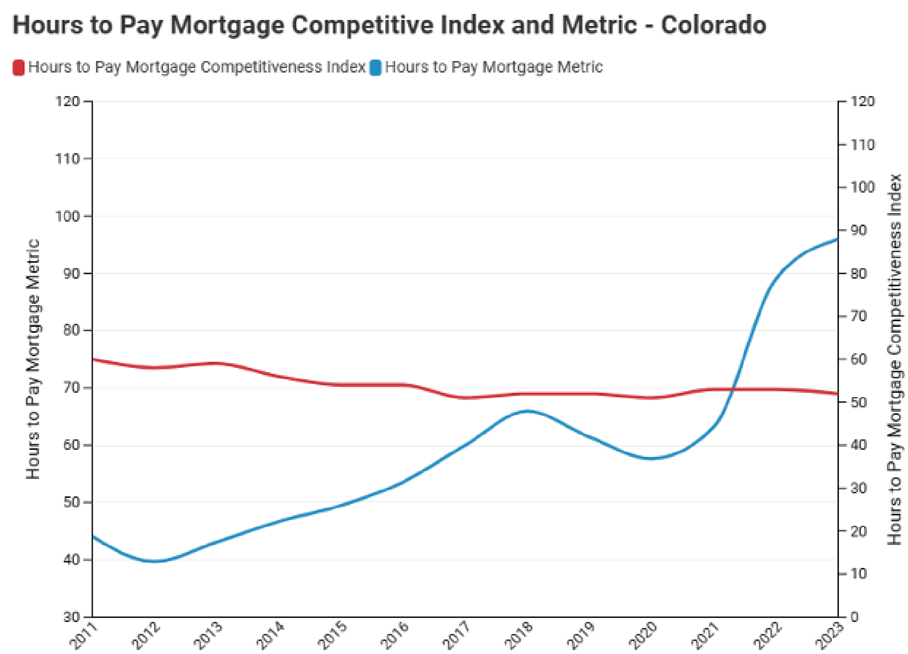
HOURS REQUIRED TO PAY MORTGAGE - COMPETITIVENESS INDEX AND METRIC

The Hours Required to Pay Mortgage Competitiveness Index decreased.

The number of hours necessary to pay a mortgage rose from 44 in 2011 to 96 in 2023. It also rose in many other states, but the increase was especially severe in Colorado. As a result, the state's index value declined from 60 in 2011 to 52 in 2023 (**Figure 5**).

In Colorado and many other states, wages have not kept pace with housing prices and rents—this is the largest contributor to unaffordability.

FIGURE 5 – HOURS TO PAY MORTGAGE COMPETITIVENESS INDEX AND METRIC - COLORADO

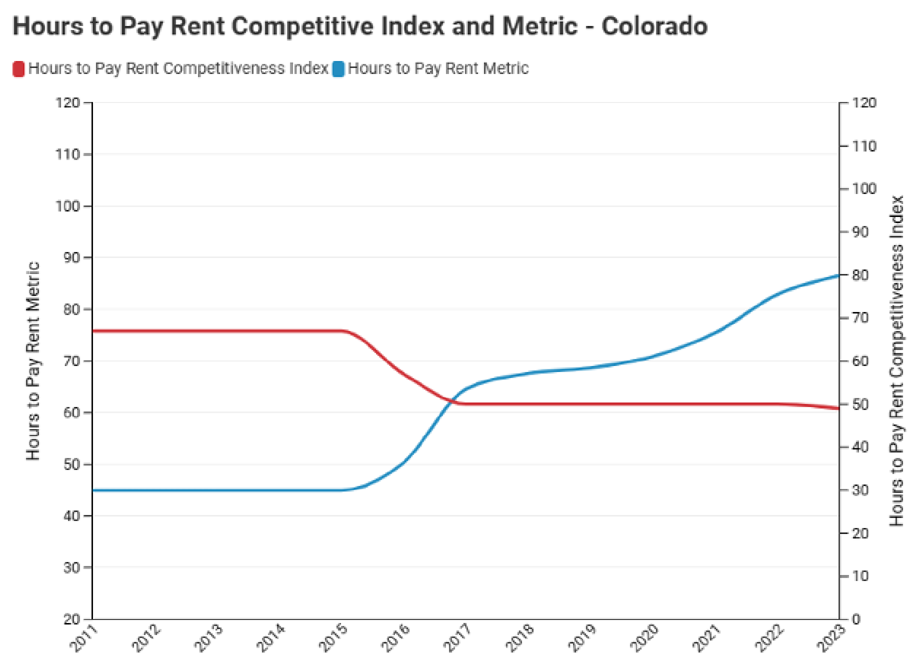


HOURS REQUIRED TO PAY RENT - COMPETITIVENESS INDEX AND METRIC

The Hours Required to Pay Rent Competitiveness Index decreased.

Data for rent are only available starting in 2015, so this analysis assumes that rents in the years 2011 through 2014 were the same everywhere as in 2015. The primary cause of the decline in the Colorado's competitiveness was a large increase in the hours needed to pay rent—from 45 hours in 2011 to 87 hours in 2023. As a result, the competitiveness index declined from 67 in 2011 to 49 in 2023, which is dead last in the U.S. (**Figure 6**).

FIGURE 6 – HOURS TO PAY RENT COMPETITIVENESS INDEX AND METRIC - COLORADO



MARKET-RATE HOUSING AND GOVERNMENT INTERVENTION

There is an ongoing debate about whether increasing the supply of market-rate housing increases the supply of affordable housing and an abundance of theoretical and empirical research studying the relationship between market-rate housing supply and affordability. After reviewing the research, Been, Ellen, and O'Regan (2018) conclude that new market-rate housing is necessary but not sufficient to produce more affordable housing and that government intervention is critical to ensure that the supply of affordable housing is added for a range of incomes.[i]

THE ROLE OF GOVERNMENT IN HOUSING

Government intervention in housing encompasses a variety of activities, like taxation, zoning, subsidizing, regulating, lending, and others. These can take place at all levels of governance: federal, state, and local.

At the federal level, the government serves primarily as a funder, providing financial resources through federal tax policy such as the home mortgage interest deduction, direct subsidies such as assistance to low-income renters, and indirect subsidies such as tax credits to builders of affordable homes. Through its other funding mainstays, the Community Development Block Grant (CDBG) and Home Investment Partnership Program (HOME), the federal government provides funds to both states and localities to address their housing needs.

State governments play a vital role in housing and as such can impact a state's competitiveness. They can help lower the cost of homeownership through mortgage revenue bond programs and can allocate their portions of Community Development Block Grant Programs (CDBG) and the Home Investment Partnership Program (HOME) funding, along with state matching funds, to areas throughout their states.

CDBGs are used to address needs such as infrastructure, economic development projects, public facilities installation, community centers, housing rehabilitation, public services, clearance/acquisition, microenterprise assistance, code enforcement, and homeowner assistance. Low Income Housing Tax Credits (LIHTCs), a major source of funding for new and rehabbed rental homes, are also allocated at the state level. Some states promote housing and community development through state-run housing trust funds or other funding mechanisms.[ii]

HOME provides formula grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing and providing direct rental assistance to low-income people. It is the largest federal block grant to state and local governments designed exclusively to create housing for low-income people.[iii]

States can also provide incentives or requirements to encourage localities to adopt policies that help grow the supply of affordable homes. States serve as conveners, educators, and facilitators through strengthened enabling legislation.

Local governments are crucial to housing and have bigger impacts on states' competitiveness than other levels of government. From implementing zoning regulations and processing requests for waivers to issuing building permits and conducting housing code inspections, localities play direct roles in shaping the housing that gets built in their communities. Some localities also donate publicly owned land or foreclosed property and contribute local funds to build or rehabilitate homes.

When considering what local governments can do to expand their impacts, it is worth noting that not all government initiatives cost money. By reducing barriers to development, expanding allowable densities, and creating incentives or requirements for building affordable homes within new development, local governments can expand the supply of affordable housing at minimal public expense.

The Role of the Private Sector in Housing

Private-sector developers and builders play a critical role in expanding the overall supply of housing. One reason housing prices are rising faster than wages is that housing supply has not kept up with demand. With the right set of market incentives in place, private-sector developers will respond by increasing the supply where needed, slowing the rise of housing costs. With creative policies to keep housing affordable over time also in place, communities can go a long way towards meeting both their economic development and affordable housing goals.

Private financial institutions, like lenders and servicers, are critical partners to help ensure long-term affordability for homeowners and help families stay in their homes. With the dramatic shifts in the housing market currently taking place, lenders and servicers have the capacity to modify mortgages for families paying more than the current values of their home or refinance unaffordable mortgages to troubled borrowers at risk of losing their homes. Lenders can explore different refinancing products as options to help borrowers, such as low-interest loans and shared appreciation second mortgages.

One reason housing prices are rising faster than wages is that housing supply has not kept up with demand.

Lenders and servicers can work with housing counselors on behalf of borrowers or through voluntary agreements with the federal government to assist households that qualify for the federal program Making Homes Affordable. Through the Making Homes Affordable program, lenders and servicers receive financial incentives for helping troubled borrowers with loan modifications and refinancing.

GOING FORWARD

Colorado has experienced high net migration over the last 12 years, but negative net migration over the last two. This has put pressure on the housing market, resulting in a deficit of housing and low affordability. An additional problem for Colorado is enormous increases in property taxes. These will make home ownership more expensive and will force landlords to pass on the increases to tenants.

It is not clear how Colorado's housing issues will improve unless meaningful reforms are enacted. In recent years, there has been an emphasis on what state policymakers can do to address the problem. Since housing development is primarily influenced by local governments via zoning and land-use measures, however, state policy has been mostly limited to funding for low-income housing and similar programs.

Many local governments have proposed rent caps, short-term rental restrictions, and allowances for higher density of development. Many of these approaches are far inferior to free-market solutions and should be considered warily.

REFERENCES

i. Been, V., Ellen, I., and O'Regan, K. (2018). Supply Skepticism: Housing Supply and Affordability, NYU Furman Center, NYU Wagner School and NYU School of Law.

ii. https://www.hudexchange.info/programs/cdbg/

iii. https://www.hudexchange.info/programs/home/home-overview/