COLORADO'S AFFORDABLE HOUSING CRISIS:

IT'S TIME FOR STRATEGIC INVESTMENTS

Colorado Coalition for the Homeless

COLORADO COALITION FOR THE Homeless Creating Lasting Solutions

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EXECUTIVE SUMMARY

Colorado's housing and homelessness crises continue to worsen, and data demonstrates that people at the lowest income levels are facing the greatest burden. The cost of housing has roughly doubled over the last decade, households are spending increasing portions of their income on housing, and first-time homelessness is skyrocketing. Elected officials have an opportunity to dramatically change Colorado's housing landscape. Over the last four decades, federal housing funding has decreased substantially, requiring state and local governments to step up. Before 2019, Colorado did not have a sustainable source for affordable housing funding. Today, the state has multiple funding sources, including $300M per year from Proposition 123 and $650M in one-time American Rescue Plan Act funds for affordable housing and homelessness resolution and prevention. While these are substantial investments, because of the lack of investment to date, they are not sufficient to fully meet the housing needs of Colorado households, making their strategic distribution critical. Public investments and policy solutions for affordable housing must be proportional to communities' needs, with specific focus on those with the greatest historical barriers to housing, the lowest incomes, and the greatest risk of homelessness.

In recent years, there has been a trend toward using public funds to develop high-cost or market-rate housing, based on the assumption that it will eventually make homes available to people at all rungs of the housing ladder, benefiting even the lowest income individuals and families. This concept of "trickle-down housing," or "filtering," suggests that over time homes depreciate, their previous occupants move into the newer, higher-priced homes, and they become available at lower price points to households lower on the income spectrum. This concept shares the underpinnings of the failed trickle-down economic model, which holds that policies benefiting the wealthy and corporations, like tax cuts, deregulation, and reduced protections for workers, lead to prosperity for all.

While filtering can be a strategy for increasing the housing supply, it is not a strategy that will ensure affordable housing particularly for those households with the greatest housing instability and barriers to accessing housing. The approach does not account for nor is it proportional to data that identifies communities' affordable housing needs. Some studies indicate that in the long term (between 10-50 years), the benefits of high-end rental development may trickle down to middle-income households. However, there is no evidence to support the idea that filtering ever benefits the lowest-income renters, and in the short term they are likely to be harmed by increased housing costs and displacement. Housing that does become more affordable through trickle-down housing is typically offset by the permanent loss of affordable housing due to disrepair or demolition. Alternatively, strategic development of new rental housing available to the lowest income households is two times more impactful in terms of increasing the affordability and availability of housing and mitigating displacement.

The bottom line is that trickle down housing is not a solution for Colorado's acute housing and homelessness crises. While it may benefit middle-income households eventually, people with the greatest, most immediate housing needs are left out. Using very limited public funds to increase the overall housing supply without intentionally targeting resources for low-income households and people experiencing homelessness will fail to comprehensively address the housing crisis that Colorado is facing. The Colorado Coalition for the Homeless (the Coalition) and its partners call on our elected officials to take decisive action to rectify the damage caused by ongoing and historical inequities, the commodification of housing, and the growing tragedy of homelessness.

INTRODUCTION

Colorado is at a crossroads in its housing crisis. People experiencing homelessness, low-income renters and aspiring homeowners are all significantly impacted by the pressure. Housing supply is low, costs are prohibitive, rent is increasing at alarming rates, and households are being pushed out of the neighborhoods that they have called home for generations. Elected officials at all levels of government face key decisions about how to manage this crisis. Failure to address critical and systemic issues that have long plagued low-income households and communities of color will only worsen the current housing environment. While increasing housing costs impact those across the income spectrum, the burden of a tight housing market and skyrocketing rents falls overwhelmingly on those with the lowest incomes and otherwise marginalized populations.

To address the growing housing crisis, it is crucial that Colorado dedicate resources to those with the greatest need – the lowest-income households at risk of housing instability and homelessness. Using very limited public funds to increase the overall housing supply without intentionally targeting resources for low-income households and people experiencing homelessness will fail to comprehensively address the housing crisis that Colorado is facing. The Colorado Coalition for the Homeless (the Coalition) and its partners are ready to see and support decisive action by our elected officials which rectifies the damage caused by ongoing and historical inequities, the commodification of housing, and the growing tragedy of homelessness.

HOW IS HOUSING AFFORDABILITY DEFINED?

"Affordable housing" is defined as housing (including rent or mortgage and utilities) that costs a household no more than thirty percent (30%) of its monthly income.[1] Households that spend more than thirty percent (30%) are considered cost-burdened and households that spend 50% or more of their monthly income on housing are considered severely cost-burdened. Housing affordability standards are delineated based on area median income (AMI), meaning the median household income of households in the municipality, metropolitan statistical area, or county in which the housing is located, as determined by the United States Department of Housing and Urban Development (HUD).[2] It is important to note that AMI calculations only include residents of the local community and do not consider the incomes of people who work in a community but cannot afford to live in that same community.

HUD defines households based on levels of income as follows:

Extremely low income (ELI)	*Below 30% AMI*
Very low income (VLI)	*30 –50% AMI*
Low income	*51 – 80% AMI*
Middle-to-high income	*81 – 120% AMI*

Those earning over 120% AMI are generally considered economically stable, candidates for homeownership, and not in need of publicly supported resources.[3]

Housing developments targeted at middle-to-high income households are typically ineligible for and therefore not subject to the requirements of federal housing programs like the Low-Income Housing Tax Credit (LIHTC) program, funding from the National Housing Trust Fund, and the Housing Choice Voucher (HCV) program (formerly referred to as the Section 8 voucher program). Such developments may be eligible for state- and local-level funding sources and in many instances generate their own profit from the collection of rental payments.[4]

The term market-rate refers to housing where rents are set at the highest level that property owners/managers believe they can charge based on market area demand and this type of housing is generally not subsidized by government funding or other housing programs. The terms high-end housing and luxury housing are used interchangeably to refer to market-rate housing intended for the most well-off renters.

AREA MEDIAN INCOMES IN COLORADO

FOR A HOUSEHOLD OF ONE (INDIVIDUAL)

	BENT COUNTY	DENVER COUNTY	SUMMIT COUNTY
30% AMI:	$17,300	$24,650	$22,000
50% AMI:	$28,800	$41,050	$36,650
80% AMI:	$46,050	$62,600	$58,650

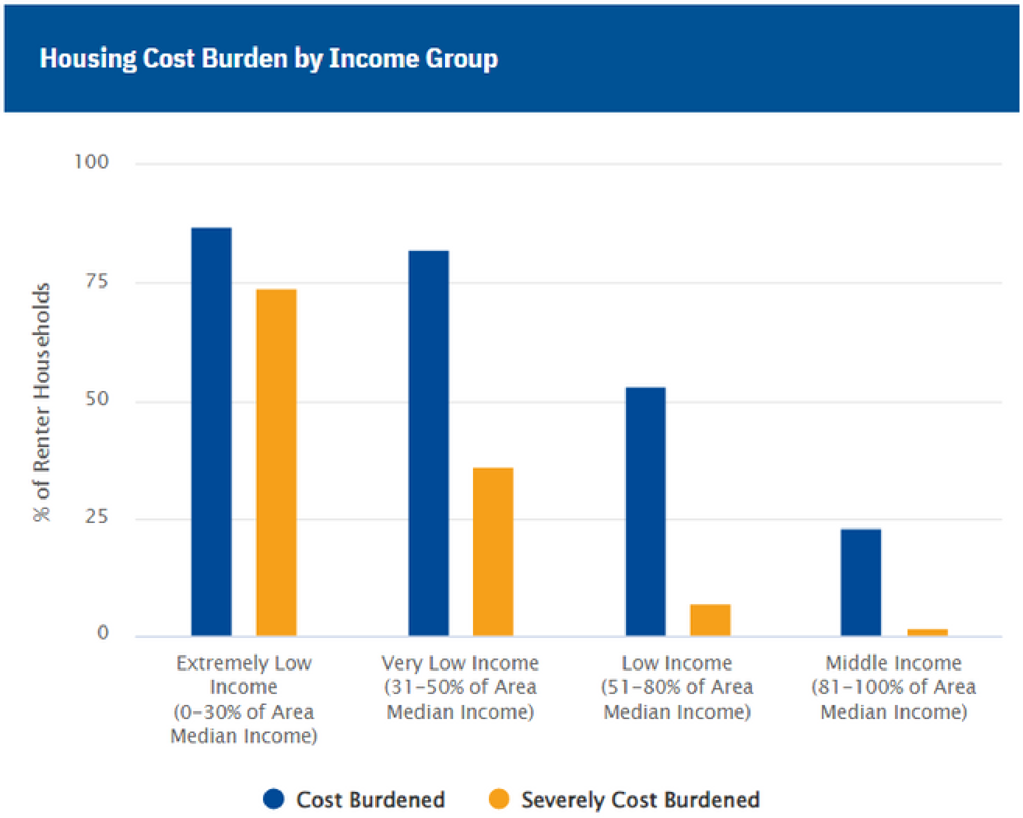
FOR A HOUSEHOLD OF FOUR

	BENT COUNTY	DENVER COUNTY	SUMMIT COUNTY
30% AMI:	$27,750	$35,150	$31,400
50% AMI:	$41,100	$58,600	$52,360
80% AMI:	$65,750	$89,400	$83,750

THE COLORADO HOUSING CRISIS LANDSCAPE

AFFORDABILITY AND AVAILABILITY CHALLENGES

According to the National Low Income Housing Coalition's (NLIHC's) 2022 Out of Reach report, Colorado ranks as the 8th most unaffordable state for housing.[5] Colorado is facing a dual crisis – one of affordability and one of availability. While 86% of Coloradans report that housing is an "extremely serious or very serious problem," the data unequivocally show that those at the lowest income levels are facing the greatest struggle.[6] Among ELI households, 74% are severely cost-burdened, meaning they are spending more than half of their income on housing, far exceeding HUD's 30% affordability standard. Comparatively, 36% of VLI households, 7% of LI households, and 2% of households earning between 81-100% AMI are severely cost-burdened. In 2018, HUD estimated that there were 336,000 cost-burdened ELI and VLI households across the state, a figure which has almost certainly grown along with rising housing costs since that time.



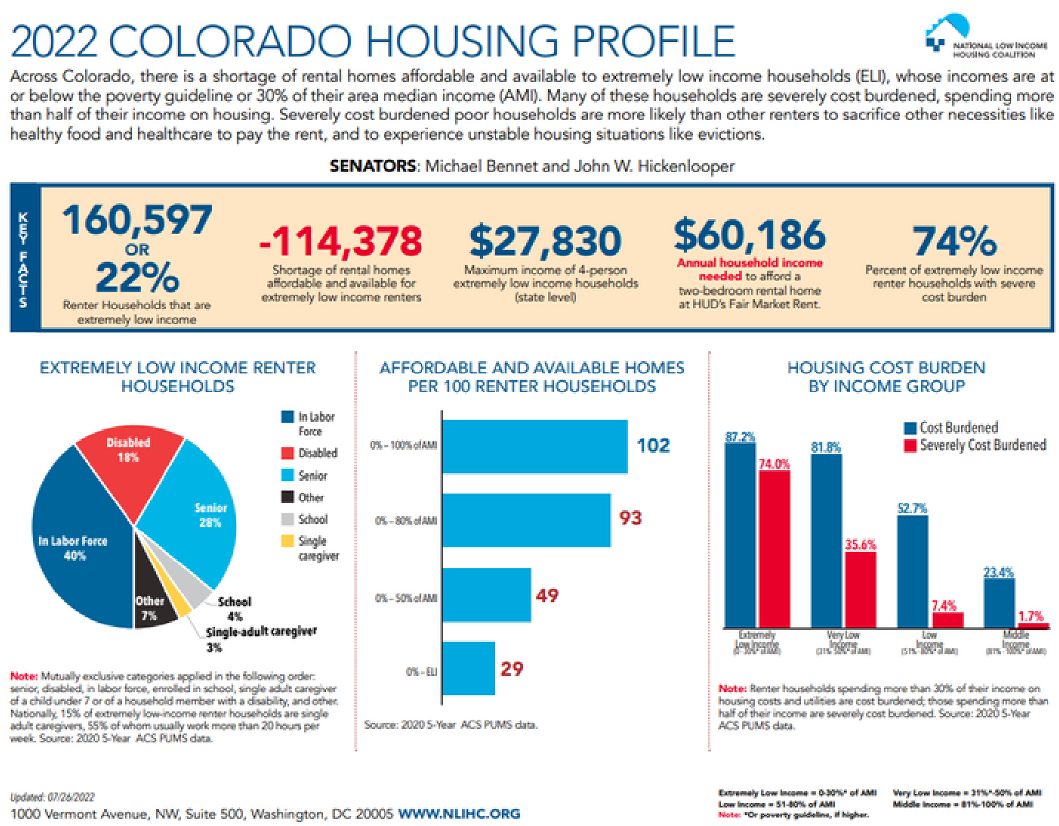
Graph from NLIHC Gap Report.

Renter households spending more than 30% of their income on housing costs and utilities are cost burdened; those spending more than half of their income are severely cost burdened.

Overall, 47% of white renters are cost-burdened compared to 56% of Black renters and 59% of Latinx renters. People of color are overrepresented among low wage-earners and the disability community and continue to feel the effects of the United States' and Colorado's history of race-based exclusionary housing policies.[7] This disproportionate burden on people of color makes investments in affordable housing a matter of racial, ethnic, and social equity.[8,9]

The lack of affordability for the lowest income households is compounded by a dearth of supply. In Colorado, there are only 29 affordable units available for every 100 ELI households, compared to 49 for VLI, 93 for LI, and 102 for households at 81-100% AMI.[10] This means that more than two-thirds of of extremely low-income households cannot find an affordable place to rent and there is a surplus—albeit a small one—of affordable housing for those middle-income households.

According to the NLIHCS's 2022 The Gap report, Colorado has a current deficit of 114,378 homes for ELI households and 142,624 for VLI households. This deficit is, in part, due to the 40% drop in home production between 2010-2020 compared to the previous decade.[11] Overall, there is a surplus of housing at the 81-100% AMI level and above, but it is not necessarily distributed geographically in a way that meets the need across the state. It is important to note that the amount of money individuals and families earn based on AMI varies from county to county. AMI is not a perfect standard, but it is valuable in that it demonstrates households' relative economic stability in each county.



Data from NLIHC.

Click image to visit the NLIHC website and see the full size image.

LIVING AT 81-100% AMI

LIVING UP TO 30% AMI

The lowest income individuals and families have always felt Colorado's lack of housing access most acutely, and that burden is projected to worsen. By 2032, the median rent in Colorado is expected to reach $2,700 per month, requiring an income of $106,000 per year or a job that pays nearly $51 per hour.[12,13] The need for housing affordable to low wage earners will increase dramatically over the next ten years. This means that hospitality staff, food service workers, stockers and order fillers, home health aides, teachers, and others will be forced into substandard, overcrowded housing, housing in communities far from their place of work resulting in higher transportation costs or priced out of the state entirely.

Renters are not the only ones struggling in Colorado's housing market. The median sale cost of a home in Colorado roughly doubled over the last ten years. Skyrocketing costs, in conjunction with the deficit of homes, are shutting would-be first-time buyers out of the market. This keeps hopeful buyers in the rental market longer, which drives up rental costs and increases competition. This is especially the case for detached, single-family properties that are typically sought out by families looking for two-, three-, and four-bedroom homes.[14] Because homeowners' incomes are generally 82% higher than renters' incomes on average, would-be buyers who are forced to stay in the rental market have greater bargaining power compared to renters who would not otherwise be in a position to buy, especially those at the lowest end of the income spectrum.[15] This additional pressure on the rental housing market reinforces the need for the development and/or preservation of more rental housing available to people making below 30%, 50%, and 80% of AMI.

COLORADO HOUSING INVESTMENTS

While Colorado has made major investments in housing in recent years, funding for affordable housing has historically been quite limited. In 2017, the legislature appropriated $15.3M per year from the Marijuana Tax Cash Fund to develop permanent supportive housing for Coloradans experiencing chronic homelessness and people exiting the state mental hospital. In 2018, the Affordable Housing Grants Line Item within the Division of Housing, Department of Local Affairs increased from $8.25M to $9.25M. Prior to that increase, Colorado's affordable housing development funding was stagnant at less than $9M each year. Until the 2019 legislative session, Colorado was one of only 10 states that did not have a mechanism to sustainably fund affordable housing, which led to a lag in development and ultimately a vast shortage of available and affordable homes across the state and a substantial increase in homelessness.

In 2019, two bills passed to fund affordable housing at a larger scale. The first bill (HB19-1245) made changes to Colorado's vendor fee to generate roughly $50M per year for affordable housing. Reduced amounts were transferred between 2020-2022 and the full amount of $65M is expected to transfer in 2023. The second bill (HB19-1322) established a new state fund to support programs and projects that improve, preserve, and expand the supply of affordable housing in Colorado. If certain fiscal conditions are met (fiscal year without Taxpayer Bill of Rights, or TABOR, refunds), that will trigger the diversion of $30M annually for the subsequent three fiscal years from the state's Unclaimed Property Trust Fund to the Housing Development Grant Fund. This funding is still outstanding because the state has not had a non-TABOR refund year since the bill passed.

More recent housing investments have created a new funding environment for the state of Colorado. Federal American Rescue Plan Act (ARPA) funding will be pivotal, with recent investments from the General Assembly and Governor's Office providing $650M in housing and homelessness funding in 2022. Most of these are one-time funds that must be spent by 2026. Most recently, Colorado voters approved Proposition 123 which is expected to generate $300M per year for housing affordability and homelessness prevention and resolution. While these sources will provide record funding for Colorado, they are insufficient to fully meet the need specific to people living on low and fixed incomes, even if the dollars are utilized as they were originally envisioned (and approved by voters, in the case of Proposition 123). All these new funding sources present an opportunity to change Colorado's housing landscape for the better, but these dollars must be strategically invested in low and fixed-income households if they are to begin to address Colorado's most pressing housing needs.

FEDERAL GOVERNMENT DISVESTMENT IN AFFORDABLE HOUSING

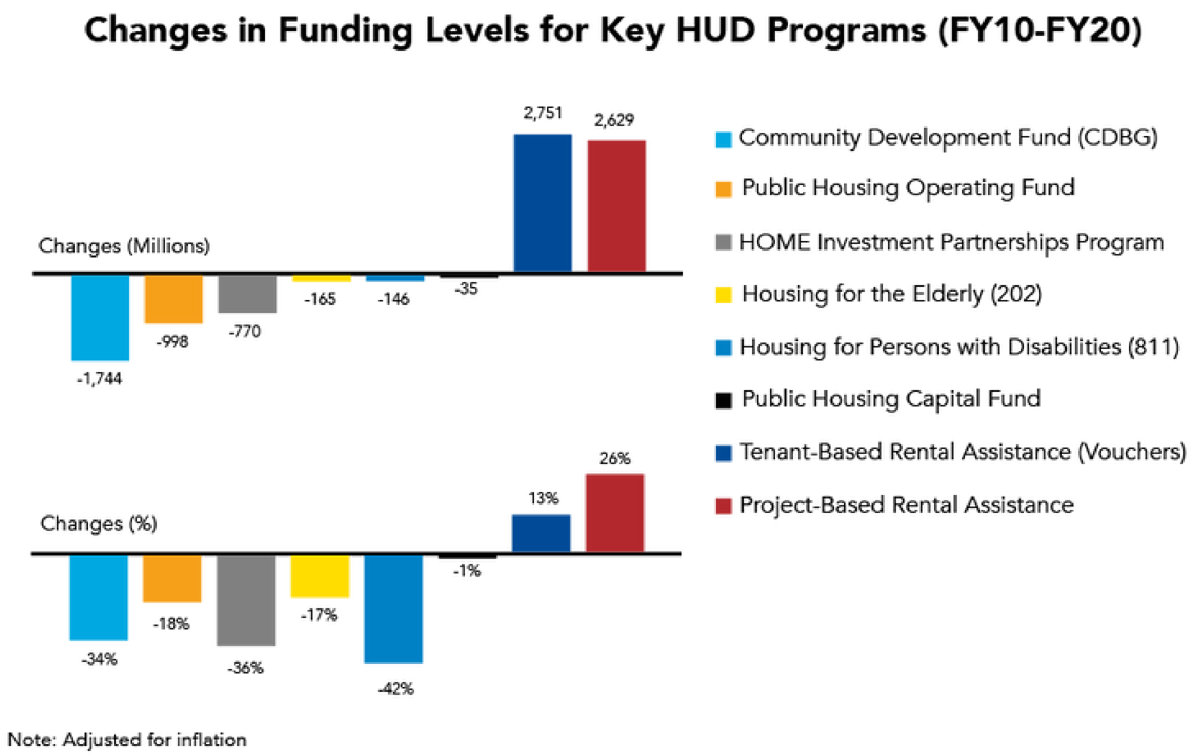
Prior to 1980, almost all affordable housing development was partially or completely federally funded. Since then, investments in many low-income housing programs have been cut or remained stagnant. Funding for HUD's most important programs has failed to grow with inflation and communities' needs. The HOME Investment Partnerships Program (HOME) and the Community Development Block Grant (CDBG) Program, for example, lost roughly one third of their value between 2010-2020. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. CDBG supports community development activities to build strong, resilient communities, including economic development, housing rehabilitation, and public services. The programs' loss of value means state and local governments bear the burden of compensating for the lack of housing resources and designing communities that work for ELI, VLI, and LI individuals and families.

Similarly, the LIHTC Program provides financing for the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income households. While it is a critical resource, it rarely builds or preserves homes affordable to households with the lowest incomes on its own and must be paired with other funding sources targeted to those with the greatest and clearest need. It is also notable that demand for LIHTC resources routinely outstrips availability. Another notable funding source, the National Housing Trust Fund (HTF), is the first new housing resource since 1974 for creating, rehabilitating, preserving, and operating rental housing for ELI households. States first began receiving allocations in 2016, and in 2022 Colorado received roughly $10M.[16]

The Housing Choice Voucher Program is the federal government's primary program for assisting very low-income families, older adults, and people with disabilities to afford decent, safe, and sanitary housing in the private market. While funding has increased somewhat for tenant-based vouchers between 2010-2022, it has failed to keep pace with the growing need. Only one in four eligible households receive vouchers or assistance leaving millions without a way to cover the increasing costs of rent.[17]

According to the Center on Budget and Policy Priorities, nationwide only one in four households eligible for a voucher receives assistance.

Today, development dollars are more competitive than ever, and low-income households' opportunities are becoming ever more limited. Outside of the limited time COVID-related stimulus dollars, federal support for low-income housing is not expected to grow. This trend necessitates strategically targeted investments at the state and local level.[18]

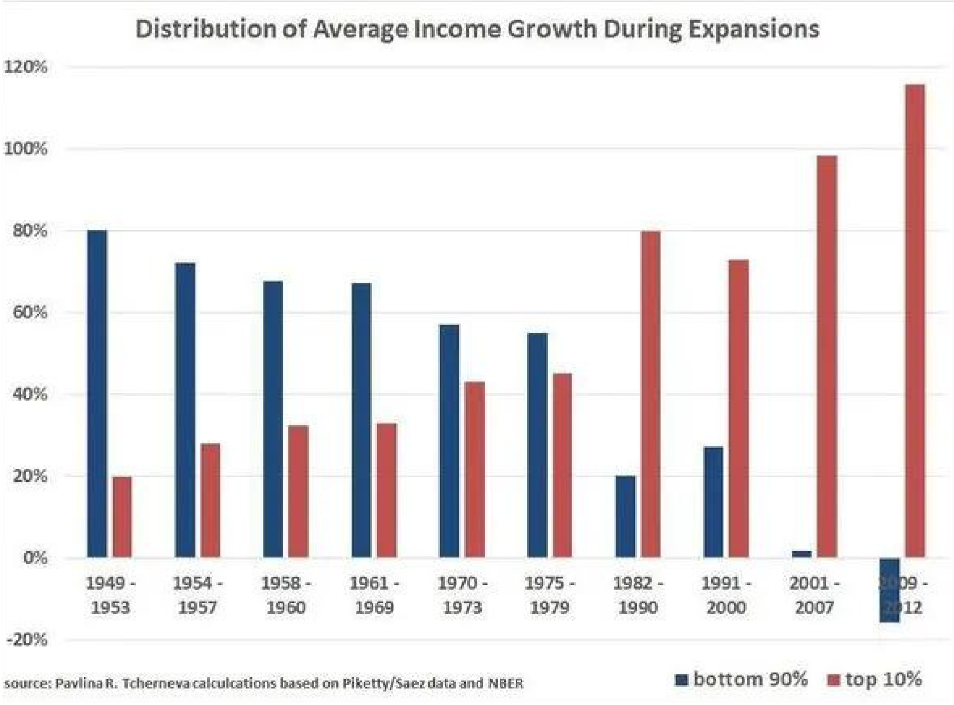


Outside of homes developed with public funds, new homes are rarely (if ever) affordable because it is not profitable for developers and landlords. Such projects are not financially feasible even for mission-driven developers without tax credits, subsidies, donated land, or other resources. Without government funding and support to create and maintain it, there is no incentive for the market to meet the needs of low-income households.[19] A recent analysis by Zillow confirms this. Nationally, most new construction since 2014 has been at the top of the market. (top third of rentals) while only 6.6% has been at the low end (lowest third of rentals).[20]

ALARMING TREND IN TARGETING HOUSING RESOURCES

In recent years, there has been a trend toward using public funds to develop housing targeted at middle and higher income households with the hope that it will "free up" homes at all rungs of the housing ladder and benefit even the lowest income individuals and families. The concept of "trickle-down housing," or "filtering," suggests that when new high-end developments are built, residents of aging, previously high-end housing will move to the new development which "free up" housing for lower income households. The belief is that the owners of the older development will reduce rent prices to attract residents from a lower tier of housing, and so on until all residents of a given community move into relatively better housing at a lower price point.

This concept shares the underpinnings of the failed trickle-down economic model, which holds that policies benefiting the wealthy and corporations, like tax cuts, deregulation, and reduced protections for workers.[21] Trickle-down economic policies have shaped public policy in the United States for the last 40 years and are, in large part, responsible for today's poverty and housing crisis. These policies have contributed to wage stagnation for working people and skyrocketing housing costs. Today, rental housing is half as affordable.[22] Like the dated economic ideology, trickle-down housing is failing to increase housing affordability and accessibility for households with the lowest incomes and deepening disparities.[23]



This graph from Pavlina R. Tcherneva, of the Levy Economics Institute (2014), tracks the distribution of income gains during periods of economic expansion from 1949 to 2012. It demonstrates the negative impact of trickle down policies on the bottom 90% of earners

Contrary to this misguided belief, many economists agree that this is not a reality in the housing market for several reasons:

1. Housing does not operate like other commodities in that it is not uniform, meaning there are a multitude of non-monetary factors like location, community amenities, proximity to food sources and healthcare that influence a prospective resident's valuation of a home. Further, the supply of land is finite, giving landowners the power to create powerful monopolies and manipulate prices for profit.

2. The trickle-down housing framework relies on demand being constant and supply outpacing demand. The shortage of housing units in Colorado and across the nation means that some individuals and families will always be pushed into substandard or too-expensive housing or out of their communities entirely. Other factors impacting the supply and demand calculation are the short-term rental market and the use of residential real estate as an investment to hold and grow wealth.[24]

3. Owners of market-rate multi-family rental housing may hold vacant units that they are unable to fill because of high rents and claim losses as tax write offs or business expenses. This disincentivizes reducing rents to make them available to lower-income households.

4. Communities are not vacuums. The concept of trickle-down housing assumes that people are only moving, or filtering, within a community. New high-end housing attracts affluent renters to previously affordable neighborhoods, increasing demand, driving up costs, and fueling gentrification.[25]

5. High- and low-end housing options are typically offered in different markets and neighborhoods. It is more likely and feasible for higher-income families to move into lower-ed neighborhoods – possibly purchasing a fixer-upper and fueling gentrification – than it is for low-income households to move into higher quality housing in more expensive neighborhoods.[26]

6. Wealthier renters tend to rent down. People typically seek less expensive housing than they can technically afford (while meeting their wants and needs). This forces lower-income households to rent up, or pay more than they can afford, because there is a dearth of housing options available to them.[27]

HOW LONG DOES FILTERING TAKE AND WHO DOES IT BENEFIT?

The United States has relied on housing supply investment strategies that look and feel like trickle down housing as the primary means of creating non-subsidized affordable housing through recent history, but how long does it take for renters to feel its effects, how effective is it, who does it benefit, and is it the best way to address the housing and homelessness crises Colorado is facing? Extensive academic research reveals little evidence that trickle-down housing leads to meaningful improvements to long-term affordability or housing accessibility overall and is particularly harmful for the lowest income households.[28] Studies show that increased high-end housing stock moderates rents in the short term at the luxury level and may benefit middle-income households decades later. That same benefit fails to trickle down to low-end renters.[29,30]

Older housing does indeed become less desirable and less expensive relative to new development as it ages, however, this is a long process, typically taking decades to see meaningful impacts. In the case of an analysis by the California Legislative Analyst's Office frequently cited by proponents of filtering, rentals built in San Francisco and Los Angeles between 1980-1985 didn't depreciate to the middle of the housing market until 2011.[31] Over this 30-year period, the cost of this housing dropped from the top fifth of the rental market to the middle fifth, leaving the lowest income individuals and families without access to the older housing stock.

Using the same methodology, a Berkeley University study analyzing the filtering effect for market rate and subsidized units built in the 1990s also found that development of both types eventually helps to lower rent costs after a period of multiple decades, with two important caveats. First, market rate development was associated with higher rent costs and greater housing cost burden among low-income households in the short term, especially in dense, transit-rich areas. Second, between 1990-2013, subsidized development reduced displacement of low-income residents two-fold compared to market-rate housing. This study, too, noted that the housing that "filtered down" did not necessarily ever become affordable to the lowest-income renters.[32]

Similarly, a study by economist Stuart Rosenthal analyzing nationwide trends found that while filtering can be a viable source for low-income housing, it only bears out in the long term. He estimates that filtering occurs at a rate of 1.9% each year. At that rate, the income of a household renting a 50-year-old home would be 60% lower than one renting a newly built home (adjusted for inflation). Again, the filtering effect found here does not mean that these homes became affordable to the lowest-income individuals and families.

Further, the study finds that the income levels of occupants dropped more quickly than the cost of housing rose, suggesting that lower-income renters began to pay a greater share of their incomes toward housing. This finding, and the growing percentage of Colorado renters who are housing cost burdened, are strong arguments against trickle-down housing. Older homes are not becoming affordable and available quickly enough, and households are increasingly occupying homes that are unaffordable to them but are affordable to higher income groups. Overall, aging market-rate housing rarely becomes affordable for the lowest-income renters. Over 80% of the homes in good condition that are affordable and available to ELI individuals and families are subsidized by U.S. Department of Housing and Urban Development programs.[33]

FACTORS THAT DISRUPT FILTERING

Rosenthal and other authorities including the California Legislative Analyst's Office and the Joint Center for Housing Studies of Harvard University acknowledge that there are several factors that may slow the filtering process. These factors include lack of new construction, major population growth, income elasticity of demand, and house price inflation. This means that filtering is much slower in some markets than others. In Colorado's booming housing market, which saw a 40% decrease in construction between 2010-2020, a population increase of nearly 15%, and housing costs nearly doubling during that same period, filtering is not a viable solution. Increases in the number of affluent renters, in particular, limit the ability of high-end rental construction to alleviate pressure on lower-income renters.[34] Further, the number of units affordable to those making less than $45,000/year decreased by almost 300,000 units, creating immense, immediate need for more homes for the lowest income households.[35] In markets like Colorado's, the case for making public investments in construction of low-income rental housing is strong.

Across the nation and Colorado, the steepest rent hikes are happening at the lowest income levels, even among homes that are in disrepair, while rents are decreasing for people at higher income levels. There is greater availability of housing for individuals and families above 100% AMI, giving those households greater bargaining power.[36] Also, middle- to higher-income earners tend to rent down, choosing to spend less on housing than what is technically affordable, especially during hard economic times.[37] An analysis by the Federal Reserve Bank of New York found that the more constrained the housing supply, the more likely it is that affluent households will choose to live in historically affordable units, removing them from the affordable housing stock.[38] This reduces the number of affordable units available to those with lower incomes while increased competition for relatively more affordable homes drives up prices. It is also notable that landlords of higher-cost housing may choose to update their aging properties, so it remains affordable to more affluent households rather than filtering down.

LOW-COST HOUSING LOST TO DISREPAIR

Downward filtering has historically been a key mechanism for growing the supply of low-cost rental homes, but it is not sufficient to make up for the permanent loss of units due to disrepair. According to a study by the Joint Center for Housing Studies of Harvard University, between 2003-2013, filtering was responsible for an 11 percent increase in low-cost rentals. However, that was matched by an 11 percent decrease in available housing in the same price range due to deterioration and demolition.[39] The net gain in low-cost rental homes from new construction, conversion from owner-occupied to renter occupied, and other market shifts during this period paled in comparison to the growth in demand at the lowest-income level.

The same Harvard University study indicated that one in eight rental homes affordable to the lowest income renters is in substandard condition, forcing households to make impossible choices between affordability and dangerous or unhealthy living conditions.[40] Lack of access to affordable housing options forces low-income households to rent housing that exposes them to risks like pests, mold, water leaks, inadequate heating or cooling systems, and overcrowding. Poor quality housing is associated with a wide range of health conditions, including respiratory infections, asthma, lead poisoning, injuries, and mental health challenges.[41] It is also worth noting that these health and safety issues are more common among unsubsidized homes compared to subsidized ones (public housing excluded).[42]

In addition to being an inefficient strategy for creating low-cost housing, the filtering framework suggests that that low-income people, including the essential workers that keep our cities, towns, and resort communities going, only deserve falling apart, dilapidated housing. With adequate public investment, housing can and should be built at a price point affordable to low-income households. Additionally, new developments are more likely to be based in universal design, meaning they are accessible to people with disabilities who may rely on disability benefits as a primary, fixed source of income.

RESEARCH LIMITATIONS

Even the most robust analyses of filtering have limitations. For example, most studies fail to consider the nuances of localized housing markets, forces that impact migration, and only track units, not the people who call them home. This makes it difficult to determine the true level of displacement and homelessness resulting from high-end development. Several frequently cited studies focus almost exclusively on positive affordability effects for middle-income people while excluding the lowest income households.[43] One study supporting filtering suggests that demolishing older, cheaper homes - often single-family homes occupied by long-time residents - to make room for more expensive multi-family homes is a viable strategy for relieving pressure on the housing market. However, the author was forced to acknowledge that this would inevitably lead to displacement of low-income individuals and families in the short and medium terms.[44] This is important because short-term consequences can have lasting negative impacts, including homelessness for up to one in three displaced residents.[45] Also, because the methodology and scope differ between studies (e.g. regional vs. local impact), it is hard to make direct comparisons or extrapolate the findings to Colorado's unique market.

HOUSING INVESTMENTS RARELY TRICKLE DOWN FAR ENOUGH

Revisiting the earlier questions posed leads to the conclusion that filtering cannot fix Colorado's housing and homelessness crises. How long does it take for renters to feel the effects of filtering? It can take decades, even generations for aging housing to become more affordable. How effective is it? Filtering is somewhat effective at creating greater rental housing affordability in the long-term but can have negative impacts on affordability and displacement in the short term. The homes that do become more affordable tend to be offset by poor quality homes being removed from the market. It is not a sufficient strategy to meet the growing housing needs in Colorado and nationwide. Who does it benefit? Filtering largely benefits high-end renters who may see reductions in housing costs in the near term, and middle-income people who may be able to access aging housing in the long term. There is no evidence to suggest that it benefits the lowest-income renters or prevents homelessness. Is continuing to rely on filtering the best way to address Colorado's housing and homelessness crises? Absolutely not. While the framework is not entirely without merit, filtering is not able to alleviate immediate, acute housing challenges across the spectrum of housing. Taken together, the realities of Colorado's market plus less-than compelling evidence that filtering ever truly helps the lowest-income people suggest that relying on trickle-down housing is not sufficient to address the state's affordable housing and homelessness crises.

CONSIDERATIONS REGARDING UPZONING

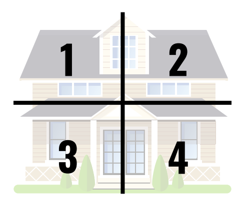
Zoning reform is one of the leading approaches to address the need for more affordable housing. Economists and advocates generally agree that single family zoning is, in part, to blame for suburban sprawl, segregation based on race, ethnicity, and socioeconomic status, and the nation's dearth of affordable housing. The solution, however, is not as simple as prohibiting single family zoning or promoting high density (mid- and high-rise buildings) or gentle density (e.g. accessory dwelling units, duplexes, triplexes, etc.) developments. Reform efforts often rely on the idea of filtering to justify zoning that allows denser, market-rate development.

Without deep income targeting and anti-displacement measures, denser development enabled by upzoning does not result in greater affordability where it is needed most, but rather generates greater profits for developers and landlords and increases housing instability and displacement among the lowest income earners, including long-time residents.[46,47] According to analysis from the Harvard Business Review, zoning reforms are critical and can relieve some pressure on the housing market, but they will typically not directly impact extremely low-income people and those at risk of or experiencing homelessness.[48] It is also worth acknowledging that zoning reform without guardrails can result in negative cost impacts and failure to increase housing availability. One study tracking the impact of upzoning in Chicago between 2010-2018 found that in the short term, land – and thus housing – prices increased and there was little to no effect on the housing supply.[49]

Tools put forward by advocates like upzoning to allow for higher density development, increasing efficiency in operations and maintenance, streamlining construction, and creative strategies for more affordable land acquisition are part of the solution (including reducing environmental impact, an important and closely connected issue). However, Colorado's housing imbalance can only be effectively addressed when these strategies are tied to investments in deeply affordable housing by the state and local governments.[50]

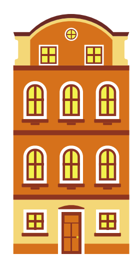
Without ensuring affordability, increased density will only lead to more unaffordable housing and displacement.

A family purchases this house in 1980 for $100,000.



City upzones the area so that 4 units can now be built on what used to be a single-family lot.

Today, a developer offers the household $500,000 for the home. The family accepts and moves out. The original house is demolished.



The developer rebuilds four units of housing, each which sells for $750,000. Subtracting the purchase price of $500,000, the developer nets $2.5 million (minus development costs).

If there are no affordable housing requirements, the original owners and others like them— often people of color— are likely to be displaced from their neighborhood.

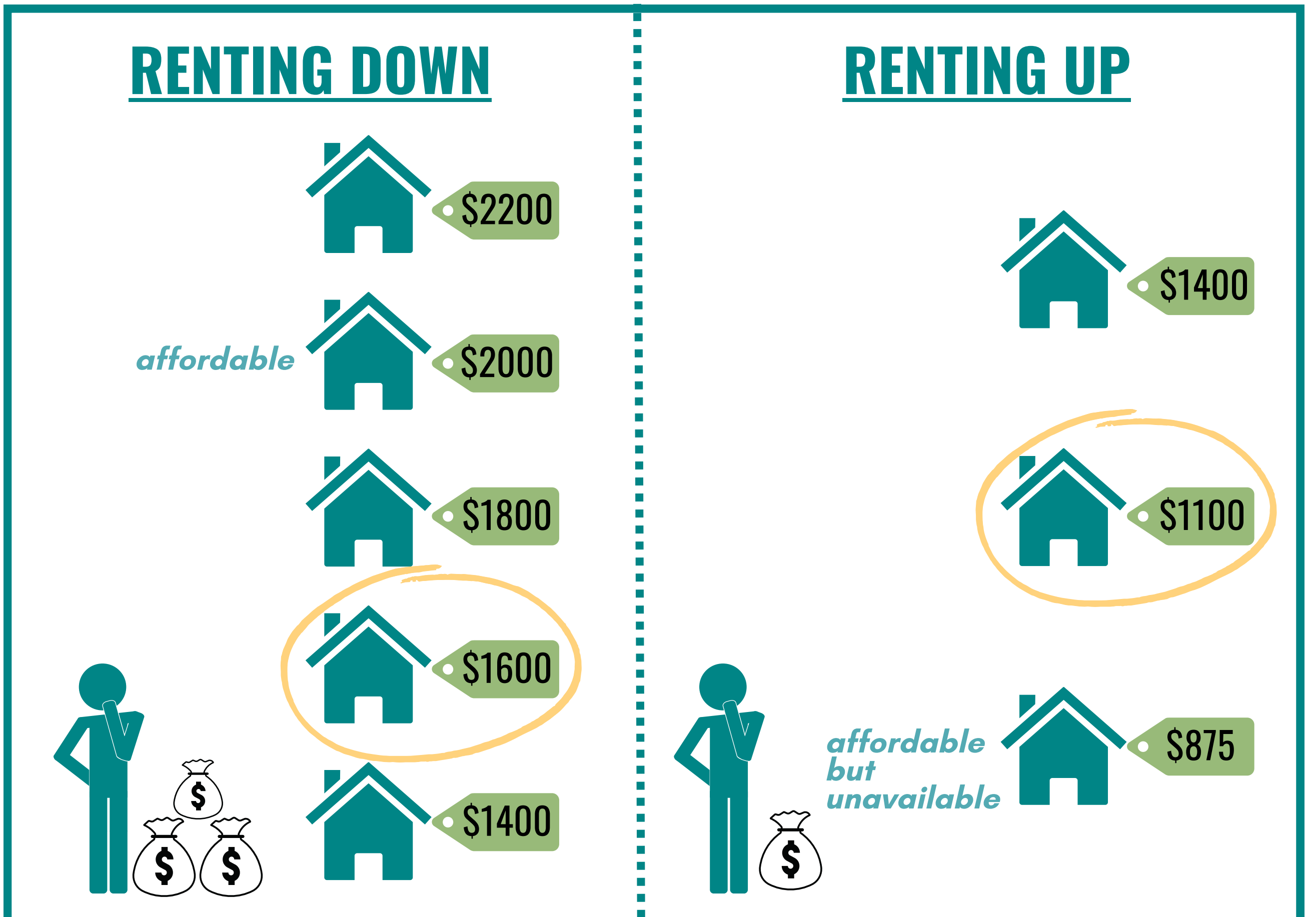
CONSEQUENCES OF NON-STRATEGIC DEVELOPMENT

A robust body of research indicates that a lack of housing available to individuals and families at the lowest income levels is tied to increased housing costs, gentrification, displacement, and homelessness. Further, strategies to increase housing development like upzoning can have unintended negative effects when they are not tied to affordability standards and anti-displacement measures. According to a study by the Committee to End Homelessness in King County, increases in housing costs are directly related to increases in homelessness. Across the 300 cities studied, every $100 increase in median rent correlated with a 15 percent increase in homelessness.[51] Studies also indicate that development without strategic income targeting increases rent for low-income tenants. A study of gentrification in New York City neighborhoods by the NYU Furman Center found that between 2000 and 2010, gentrification was occurring in the neighborhoods with the greatest increases in new housing units. Despite the influx of new development, the share of homes affordable to households earning under 80% AMI dropped by over 27%.[52] The Black population in these neighborhoods also notably decreased. At the same time, neighborhoods adjacent to those experiencing high levels of development, housing cost growth, and gentrification reported increases in overcrowding (e.g. doubling up).[53]

While more housing is needed across the income spectrum in Colorado, utilizing precious public dollars to fund housing for households earning above the median wage of a given area will not solve Colorado's housing and homelessness crises. These funds must be spent judiciously using data-driven and research-supported strategies. In fact, investing in housing at the lowest levels would improve affordability for households who were feeling the strain of a hot housing market at middle- and higher-income levels. Targeting investing in lower-income housing first has faster, more significant impacts for people at lower-income levels and throughout the housing market. If Colorado were to create an adequate stock of housing affordable and available to ELI and VLI households, that could open units for middle- and higher-income people (which may have been previously rented by a cost-burdened ELI or VLI individual or family), reduce barriers to using vouchers, one of the most effective housing tools available, and mitigate the harms of non-strategic development.[54,55,56]

> ***"Across the 300 cities studied, every $100 increase in median rent correlated with a 15 percent increase in homelessness."***

RENTING UP AND RENTING DOWN IN COLORADO:



Household earning $80k annually can afford to pay $2000/month for rent, but selects a unit at $1600 to save.

Household earning $35k annually can afford to pay $875/month for rent, but has to pay $1100 due to a lack of available and affordable options.

CONSIDERATION OF SPECIAL POPULATIONS

HOMELESSNESS RESOLUTION THROUGH TARGETED INVESTMENTS

Recent polling indicates that 72% of Coloradans believe homelessness is an extremely or very serious problem.[57] Between 10,000 (based on the annual HUD-mandated Point in Time count) and 53,000 people (based on Medicaid participant self-reports) are without stable housing statewide.[58] First-time homelessness doubled in the Denver Metro area between 2020-2021 due to sharply increasing rents and the impacts of the pandemic like job loss. While statewide homelessness data is incomplete, service providers know that the trend is mirrored in non-urban areas. Chronic homelessness (defined by multiple or sustained periods of homelessness and one or more disabling conditions) has also climbed significantly, suggesting that once a person enters homelessness, regaining stable, affordable housing is exceedingly difficult. Between 2007-2021, the net increase in sheltered chronic homelessness was 6% (2,578 individuals) nationally, and a whopping 265.8% (1,074 individuals) in Colorado. From 2019-2020 alone, Colorado saw a 34.6% increase in people experiencing chronic homelessness (728 individuals).[59] It is also important to note that Black, Indigenous, and people of color are drastically overrepresented in the unhoused population, making homelessness resolution a matter of ethnic and racial equity.

Roughly half of people experiencing homelessness are working, and almost all are working for very low wages.[60] In fact, a 2021 study from the University of Chicago estimates that 53% of people living in homeless shelters and 40% of unsheltered people were employed, either full or part-time between 2011-2018.[61] The growing gap between wages and housing costs means that ELI households cannot afford housing without government support. According to the global management consulting firm McKinsey & Company, new affordable housing stock must be largely targeted to ELI households.[62] While households across the income spectrum are feeling the squeeze of Colorado's hot housing market, housing opportunities are getting further from reach for people experiencing homelessness. Only deeply affordable housing units, rent subsidies, and supportive services like behavioral healthcare will begin to reduce homelessness. Investments in housing that serve middle and higher-income households will not have any impact on the growing issue of homelessness.

Denver's Social Impact Bond (SIB) program and its extension Social Impact Partnership to Pay for Results Act (SIPPRA) provide an excellent example of the value of targeted housing investments. These pay-for-success models provide supportive housing for people experiencing homelessness who are high-utilizers of public services like emergency departments and jails. After three years, 77% remained housed and the city of Denver realized substantial savings. Overall, it costs taxpayers half as much to provide housing and supportive services than to let people experiencing homelessness remain unhoused.[63] In addition to its devastating impact on those who experience homelessness, it comes at a great cost to communities and taxpayers. SIB demonstrates that strategic investments in housing and services for those with the lowest incomes and greatest need are a win for everyone.

HOUSING INVESTMENTS FOR PEOPLE ON A FIXED INCOME

People living on fixed incomes— including those with disabilities, aging Coloradans, and veterans—are increasingly struggling to afford housing. Investments at middle- and higher-income levels exclude people on fixed incomes.

Disability is both a cause and consequence of poverty—disabilities can limit earning potential and impose extra costs, while poverty makes it difficult to access adequate health care and treat conditions before they become disabling. As a result, the poverty rate for adults with disabilities is more than twice that of people without disabilities. Amidst an affordable housing crisis, people with disabilities are struggling at much higher rates than their able-bodied counterparts. In Colorado, 62,000 low-income renters with disabilities are in severely cost burdened households. In Denver, nearly 60% of disabled renter households spend more than 30% of income on rent. This datapoint is not available on the state level. As of 2022, the federal monthly SSI payment is $841 for an individual and $1,261 for a couple ($10,092 and $15,136 per year, respectively). Renters relying on SSI can struggle to afford housing, as there is not a single housing market in the US where a person living solely on SSI can afford a safe, decent apartment without some form of assistance.[64] For Coloradans in 2022, the maximum SSI benefit amount is equal to 14.2% of area median income when averaged across the state. This means that a person with a disability receiving only SSI would have to pay 139% of their monthly income for a one-bedroom unit.[65]

According to a US Census Bureau poll in summer of 2021, Colorado ranked first for housing instability for older adults in the US, with one in three survey respondents 65 and older expressing "slight confidence" or "no confidence" they would be able to pay next month's rent. By comparison, the general population reported the same level of concern. The older adult population in Colorado has more than doubled over the last two decades and is expected to swell to 1.3 million by 2035.[66]

Many veterans are also struggling to get housed and stay housed. One in ten people experiencing homelessness in Colorado are veterans. Physical and cognitive disabilities and mental health challenges can limit their ability to work. The disability compensation rate for 2023 is $3,622 for an individual with a 100% disability rating.[67] Assuming this is a veteran's only source of income, they would be bringing in roughly 65% AMI in El Paso County, for example.[68] Even those who can work are often funneled into jobs that pay low wages (i.e., truck driver, dental assistant, carpenter, and firefighter). These challenges often lead to housing instability. Notably, homelessness among veterans has been significantly reduced in recent years, reaching functional zero in several communities, meaning the number of veterans experiencing homelessness at any given time does not exceed the community's proven record of housing at least that many veterans in a month. These reductions were due, in very large part, to significant federal investments in housing resources for veterans through the Veterans Administration (VA). This is a prime example of the power of strategically targeted investments in housing and services for a population particularly vulnerable to housing insecurity, and a model Colorado should follow in addressing needs of other vulnerable communities and the state's housing crisis as a whole.[69]

Colorado has the ability to make meaningful impacts on the housing security of people at the lowest income levels, including those with identities and experiences that create additional housing barriers. The new funding streams present an opportunity that must not be missed.

CONCLUSION

Publicly backed policy and funding interventions to grow the availability of homes for people making higher incomes is not the way to address the urgent, growing housing and homelessness crises in Colorado. When considering how to utilize Colorado's limited public resources, policymakers should ask themselves the following:

1. Does this policy or public investment directly increase housing affordability and access for extremely low-income, very low-income, and low-income individuals and families?

2. Does this policy or public investment help ensure low-wage and frontline workers, who are the backbone of Colorado's communities, are able to live where they work?

3. Does this policy or public investment push back against past and present discriminatory housing policies?

4. Does this policy or public investment prevent or reduce displacement?

5. Alternatively, what negative consequences will this policy or investment have on ELI, VLI, and LI Coloradans—and how might those be remedied?

6. How are the voices, needs, and wishes of the most systemically marginalized communities being solicited and incorporated?

THE COALITION AND OUR PARTNERS CALL ON ELECTED OFFICIALS TO SOLVE THE HOUSING AND HOMELESSNESS CRISIS IN COLORADO BY COMMITTING THE FOLLOWING PRINCIPLES:

The use of public funds or resources should be directly tied to increasing the stock of affordable housing for those who have historically suffered the most significant barriers to housing access.

- Households living with low or fixed incomes.
- Households that have been prevented from building generational wealth because of exclusionary housing policies.
- Households with little or no access to financial resources.
- Households who qualify for but are not able to receive housing subsidies.
- Households in neighborhoods with high vulnerability to gentrification and displacement.

Mixed-income development should be a priority for any development benefiting from density and/or up-zoning allowances.

- Mixed-income development creates more diverse, vibrant, and integrated communities.
- Mixed-income development allows for the "penciling out" of development proposals where some higher income units of housing can subsidize the development and operation of units designated for lower income households.
- Mixed-income development should be proportional to the demonstrated needs of the community (see point below).

The development of any publicly funded or supported housing should be proportional to demonstrated housing needs of a community and must include deeply targeted affordable housing.

- Housing needs assessments and "demonstrated needs" must be driven by publicly available data sources and assessment tools.
- Proportionality does not have to be exact but must demonstrate a direct affordability benefit to the community and particularly to those households at low or fixed incomes or with historical barriers to housing access.
- Public funds, resources, technical assistance, or other governmental support should not be used for the development of market-rate housing.

Permissions, allowances, and incentives for local communities and developers related to increased density must be directly tied to affordability requirements, anti-displacement measures, and accessibility.

Affordability

- Density without affordability will only result in the creation of more unaffordable housing – density/supply alone will not address the "affordable housing crisis" without intentional policies to ensure affordability especially in low-income neighborhoods.
- Up-zoning is an opportunity for developers to build more, sell more, and rent more and should be tied directly to giving affordability back to the community.

Anti-Displacement

- Density and up-zoning policies that do not ensure affordability or minimize the displacement effect of increasing land values and overall pricing pressure for the households that currently reside in targeted areas will create more harm to and erosion of lower-income, marginalized communities.
- Density and up-zoning allowances should be targeted to middle to high income communities to counter the trend of gentrification and displacement in lower-income, marginalized communities.
- Housing developed under up-zoning and density requirements must be affordable to the households currently living in the targeted areas.
- Communities should use a data-driven assessment tool to measure the vulnerability that neighborhoods in the community have towards gentrification and displacement.
- Density and up-zoning allowances in low-income or vulnerable communities should consider no net loss/density bonus approaches and preference policies.
- Transit-oriented development (TOD) without affordability requirements will displace households that currently exist around transit areas and whose livelihoods depend on access to public transit.

Accessibility

- New housing allowed in up-zoned communities or through density allowances should be designed with an eye towards accessibility.
- Based on current and projected national prevalence of populations with functional impairments and taking into account trends of aging, an adequate proportion of the housing stock should be accessible to people living with disabilities.

Without targeted investments and laws woven throughout Colorado's current and future approaches to housing, homes for the state's lowest-income households will not be built or preserved. Not only will the enduring challenges of housing affordability and homelessness not be resolved, they may be exacerbated.

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