

Case Studies: Denver

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors



Denver, CO

The rental market in Denver has grown rapidly in recent years. Much of the new housing stock is targeted at a growing segment of high-income renters.

Competition has intensified for the city's stock of existing units, which has driven up rents and decreased the number of lower-rent units. As a result, almost half of middle-income renters are now rent-burdened.

\$61,100

MEDIAN HOUSEHOLD
INCOME

\$45,300

MEDIAN RENTER
HOUSEHOLD INCOME

146,000

TOTAL RENTER
HOUSEHOLDS

93,500

TOTAL MULTIFAMILY
RENTAL UNITS

DRIVERS

Growing Renter Demand, Especially from High-Income Households

Denver added 32,000 renter households between 2000 and 2016, a nearly 30% increase. Real median renter incomes have risen by 12%, as new entrants to the market skew toward higher income brackets. By 2016, more than a quarter of households were high-income.

Rising Development Costs

Development costs have risen across the board. Growth in construction costs since 2000 outpaced the national rate. Land costs also rose significantly, growing by 143% since 2011.

Growing Housing Affordability Challenges for Middle-Income Households

Affordability has dramatically worsened for the city's middle-income renter households, almost half of which are now cost-burdened.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- Tax Abatement
- By-Right
- Inclusionary Zoning

IMPACTS

Steep Decline in Lower-Rent Units

Demand for rental housing has driven rents higher for all housing, including existing stock. As a result, the share of occupied rental units priced under \$800 a month fell by 20.9 percentage points from 2000 to 2016. Only 20% of rental units now fall in this price range, compared to the national average of 37%.

Continued High Rents for New Rental Housing

Rents in Denver were already high in 2000 and have remained high despite a large number of new deliveries.

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

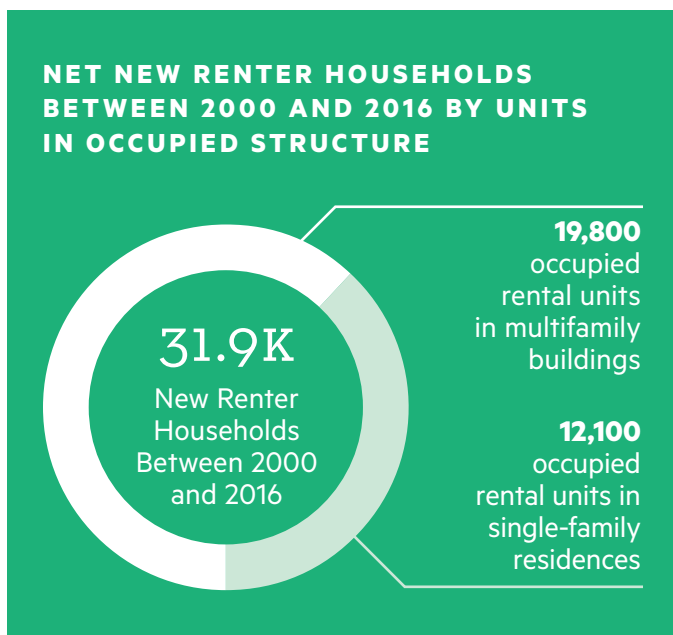
- San Diego, CA
- Honolulu, HI
- Portland, OR
- Austin, TX

DRIVER

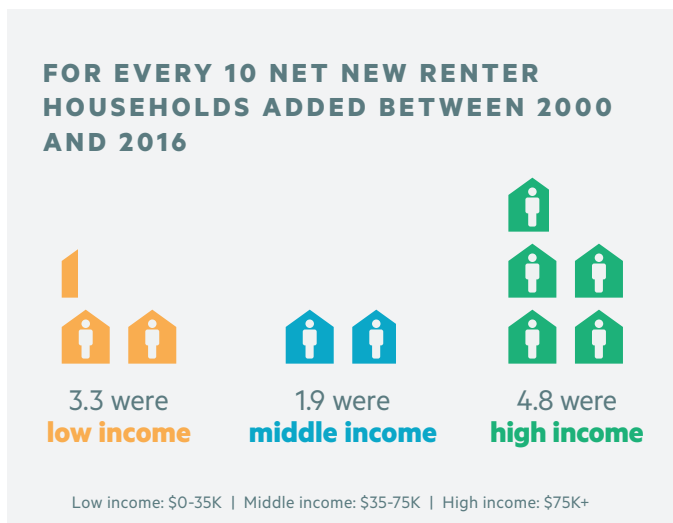
Growing Renter Demand, Especially from High-Income Households:

Historic levels of growth have skewed toward high-earning renters choosing to live in Denver.

The number of renter households grew by 32,000, at an unprecedented rate. This growth marks a 29% increase in renter households. Of these households, 62% chose to live in an apartment.

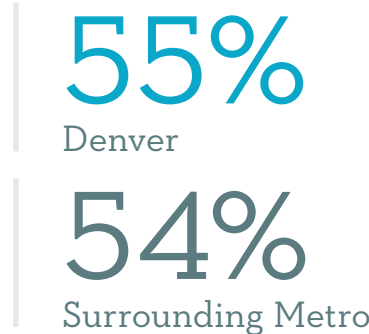


About half of new renter households were high-income. Middle-income households comprised the smallest share of new renters.

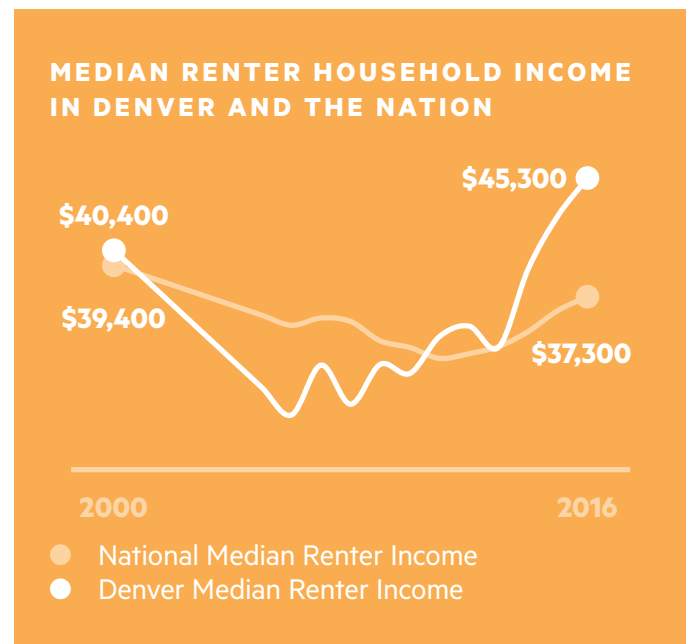


The number of high-income renters grew rapidly in both the city and surrounding metro area. The number of high-income renters in Denver grew 55% between 2000 and 2016. During the same period, the number of high-income renters grew by 54% in the metro region (excluding the city). If the supply of rental housing targeted to high-income renters does not keep pace with demand, high-income renters are likely to displace low- and middle-income renters in desirable neighborhoods.

GROWTH IN THE NUMBER OF HIGH-INCOME RENTERS



Between 2000 and 2016, real median renter income grew by 12%. Denver’s median renter income has rapidly increased in recent years, such that by 2016 it was 21% higher than the national median. For some, these higher incomes help to mitigate the burden of rising rents, but the increase in incomes has intensified pricing competition overall.



Source: CoStar, ACS, U.S. Census, HR&A analysis

DRIVER

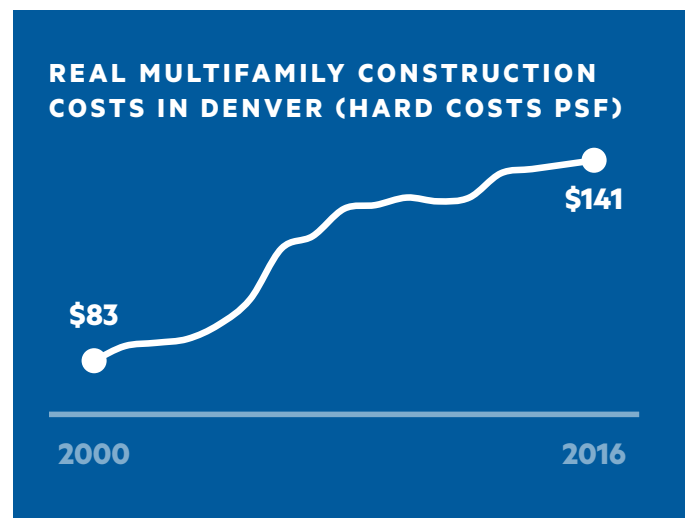
Rapidly Rising Development Costs:

Regulatory, construction, and land costs have all risen.

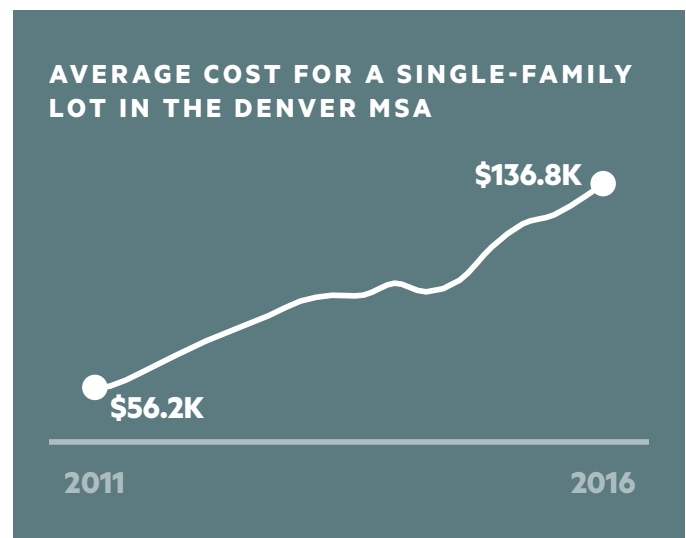
When development costs increase, rents must increase to cover the higher costs. The price of new development in Denver in 2000 was already significant due to the high costs of land and construction. Since then, development costs have continued to rise and have contributed to consistently high rents for new development. Development costs are derived from three main components – land costs, hard costs (labor and materials), and regulatory soft costs.

Local regulatory conditions intensify the rising cost of development. Higher costs are driven by local policies, such as those that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permitting approvals, or limit development potential through parking requirements and other construction requirements.

In the Denver area, real hard costs have increased significantly. Real hard costs increased from \$83 PSF to \$141 PSF for multifamily buildings in real terms, amounting to an increase of 70%. This is higher than the nationwide increase of 57%.



Denver's real land costs increased by 143% between 2011 and 2016.¹ Rapidly rising land costs indicate a dwindling supply of well-located developable land in Denver, allowing owners of sought-after properties to command higher prices. Denver's quantity of developable land is physically constrained by the mountainous landscape and is limited by regulatory barriers to building. Increases in land costs have kept asking rents for new development high.



¹ Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2011 and 2016.

IMPACT

Rapidly Rising Rents for Existing Housing: Denver's existing housing stock has grown much more expensive as a result of increased competition.

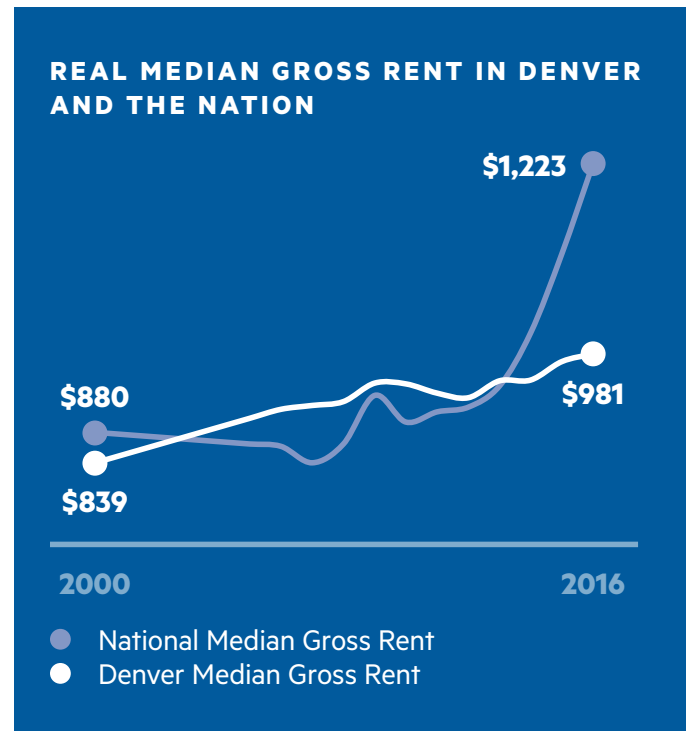
Rents for existing units are increasing much faster than the national average. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 32%, far above the nationwide growth rate of 13%. This indicates significant demand for existing units, due to insufficient supply of new rental units and/or inordinate demand for existing units.

The availability of rental units priced at under \$800 in rent per month fell. While 41% of rental units in 2000 were priced below \$800, this share fell to 20% by 2016 – a figure well below the national average. An influx of new renters increasingly relies on existing units for housing due to inadequate new supply, driving up rents and resulting in the loss of less expensive units.

20%

of occupied rental units were priced under \$800 in 2016, **down from 41% in 2000.**

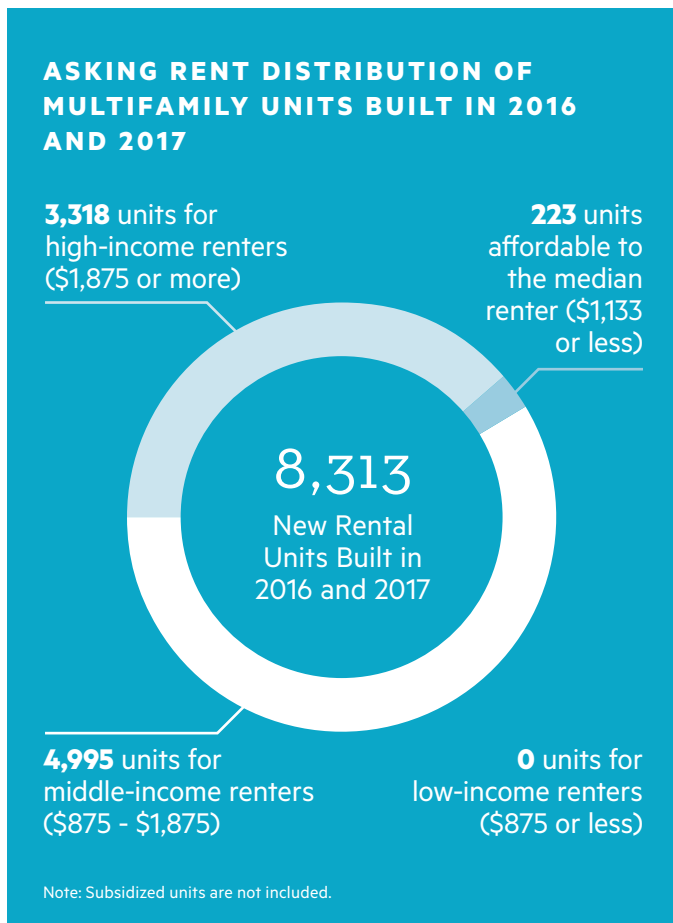
Real gross median rent in Denver increased 39% between 2000 and 2016. Real gross median rent grew from \$880 in 2000 to \$1,223 in 2016. This is more than double the nationwide increase of 17%. The gross median rent in Denver is now almost \$250 more than the nationwide gross median rent. The most dramatic increases in rent have occurred recently, between 2013 and 2016.

**IMPACT**

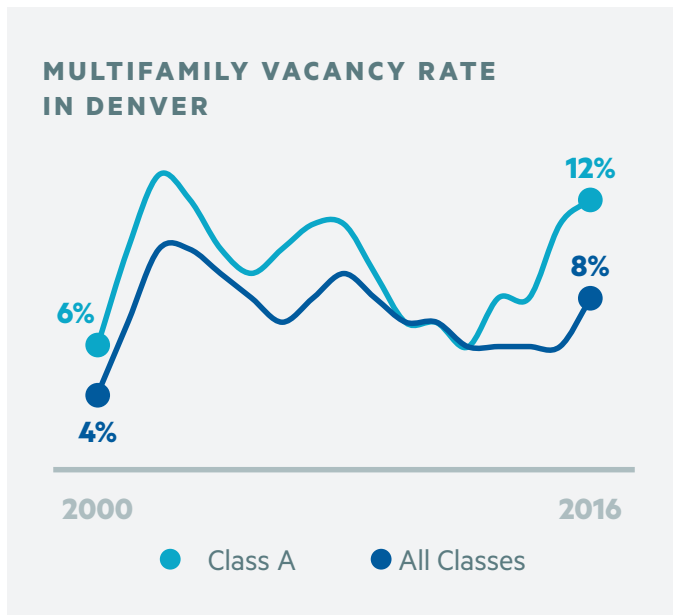
High Rents for New Housing: Steep development costs have kept rents for new supply high and out of reach of most renters.

Virtually all the new units produced in 2016 and 2017 were not affordable to the median renter.

Only 223 out of 8,313 units were produced with average asking rents less than \$1,133, the affordable monthly rent for the median renter. In contrast, 60% of all units delivered in Denver in 2016 were delivered to both middle- and high-income renters, while the remaining 40% of units were only affordable to high-income renters. No units were delivered that would be affordable to low-income renters.



Multifamily vacancy rates rose slightly in the last few years. This generally indicates a better balance between supply and demand.

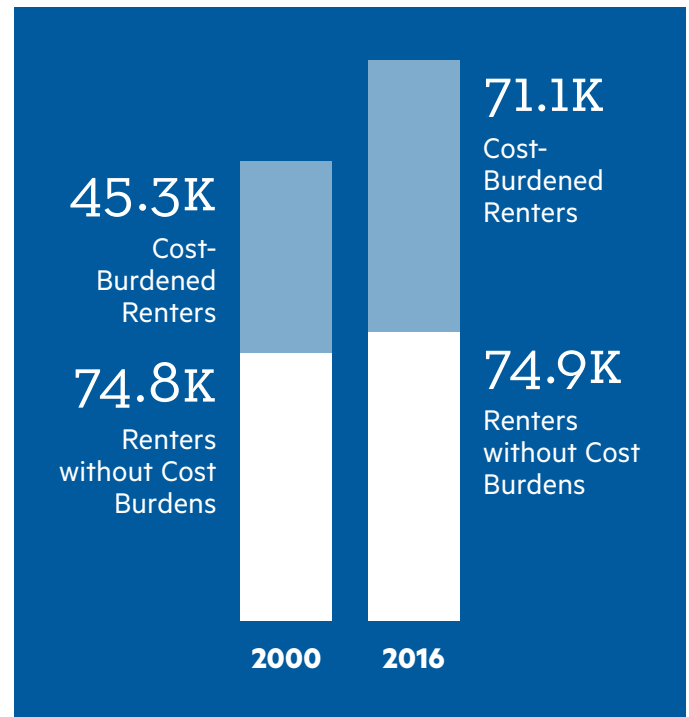


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Growing Housing Affordability Challenges for Middle-Income Households:

Cost burdens are now higher than average for both low- and middle-income renters, in a previously affordable city.

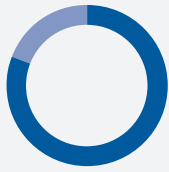
Rent burdens in Denver grew more than they did nationwide. The total share of rent-burdened households increased by 11 percentage points between 2000 and 2016.



Low- and middle-income renters were significantly impacted by growing affordability challenges.

Almost half (45%) of all middle-income renters were rent burdened in 2016, up from only 18% in 2000. More than four out of five low-income renters were rent burdened in 2016, up from nearly three out of four (73%) in 2000. Growth in affordability challenges is likely due to increased competition for rental housing, which is driving up rents faster than renter incomes.

SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



81% of low-income renters were rent burdened, up from 73% in 2000.



45% of middle-income renters were rent burdened, up from 18% in 2000.



4% of high-income renters were rent burdened, up from 2% in 2000.

Low income: \$0-35K | Middle income: \$35-75K | High income: \$75K+

Denver is struggling to attract and retain low- and middle-income renters. Between 2000 and 2016, the number of low- and middle-income renters grew much more rapidly in the surrounding metro areas (excluding the city) than in the City of Denver itself. This disparity in growth rate, which has led to a falling share of low- and middle-income renters in the city, is at least partially – and likely substantially – due to an inability to afford quality housing in the city, rather than simply a preference for living elsewhere.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

14%

Denver

61%

Surrounding Metro

Even with recent growth in renter incomes, the median rent was still out of reach for the median renter in 2016. While both renter incomes and rents in Denver have experienced increases in recent years, rent growth has outpaced renter income growth. In 2016, the median renter could not afford the median gross rent by about \$90.

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS

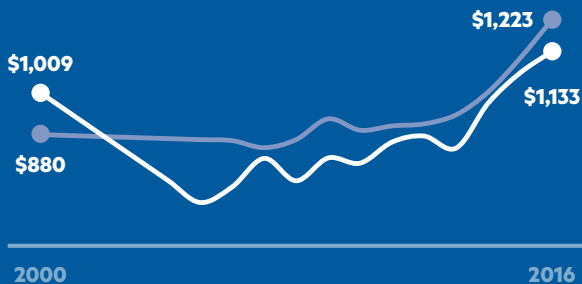
12%

Denver

44%

Surrounding Metro

MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN DENVER RENTER HOUSEHOLD



- Median Gross Rent
- Affordable Monthly Rent for Median Renter