Center for the American Dream of mobility and home ownership

Creating a Housing Crisis

How Government Makes Housing Unaffordable in the Denver Metropolitan Area

by Stephen Hackman

Issue Paper 10-2004—December 2004

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The Independence Institute's Center for the American Dream works to give people freedom of choice in land use and transportation while protecting urban livability and environmental quality. The "dream" of the Center for the American Dream is affordable homeownership, mobility, a clean and livable environment, and personal freedom for all Americans, not just an elite few.

The Center for the American Dream does not advocate that people drive everywhere or take public transit, live in low-density suburbs or high-density urban centers. All of these are legitimate lifestyles. The Center does oppose coercive planning efforts that attempt to engineer lifestyles through subsidies, regulation, and limits on personal and economic freedom.

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Government policies threaten the American dream of affordable homeownership in the Denver metropolitan area. Because of these policies, the Denver region is the least affordable major urban area in the interior United States.

According to the National Association of Realtors, Denver's median housing prices are considerably higher than prices in Atlanta, Dallas, Houston, Las Vegas, Phoenix, or Salt Lake City. This is not because Denver has an especially high quality of life or is a particularly fast-growing region: all of the above-listed regions are growing as fast or faster than Denver.

Denver also rates poorly using standard measures of housing affordability—that is, the price of housing relative to average regional incomes. According to the National Association of Home Builders' housing opportunity index, which measures the percentage of homes that are affordable to a median-income family, Denver is the least affordable of any major housing market in the interior U.S. As Tom Clark of the Metro Denver Chamber of Commerce notes, "we have the highest housing prices of any state without a coastline."

Denver's affordability problem is getting worse, not better. In the last decade, housing prices have increased throughout the U.S. But Denver's prices have nearly doubled, while prices in other housing markets listed above have increased by only 50 to 70 percent.

Such high housing prices create problems for many residents of the area. While the price of a starter home is typically $170,000 to $200,000, the average black or Hispanic household can only afford to pay about $120,000 to $130,000 for a home. Many professionals such as school teachers, police officers, and truck drivers are also unable to afford the price of a starter home.

Many people assume that houses are expensive simply because land is expensive. Yet there is plenty of land that could be used for housing in the Denver metro area. In *The Impact of Zoning on Housing Affordability*, Harvard economist Edward Glaeser and Wharton Business School economist Joseph Gyourko note that the real problem in many areas is that housing has become expensive "because of artificial limits on construction created by the regulation of new housing. The barriers to building create a potentially massive wedge between prices and building costs."

This is what has happened in Denver. The barriers created by government policy include:

1. Obstacles from zoning and design-review processes;
2. The urban-growth or urban-service boundary imposed by the Denver Regional Council of Governments' (DRCOG) Metro Vision plan;
3. Efforts to protect open space; and
4. Impact fees.

While these policies may have been imposed with good intentions, they produced the largely unintended consequence of driving up housing prices. While some people may think this is a good thing as a way of preventing "sprawl" or slowing growth, the darker view is that these policies greatly benefit the "haves"—those who are wealthy enough to already own their homes—while they harm the "have nots"—those who must rent their housing. Since the haves are overwhelmingly white while most minorities are among the have nots, one accurate description of these policies is that they represent "the new segregation."

Some cities have responded to high housing prices with *inclusionary zoning* policies that require homebuilders to include a certain percentage of "affordable" housing units in any development. Yet these policies force builders to increase the cost of other housing in order to cover the losses from the affordable units. This drives up the cost of housing for everyone but the few lucky families who get to purchase the affordable homes. Inclusionary zoning is just one more "feel good but do harm" policy that makes housing less affordable.

To fix these problems, this paper recommends:

1. Municipalities should streamline the land-use regulatory process so as to minimize the time required to get permits to build new housing.
2. DRCOG must reconsider its Metro Vision plan by making housing affordability a higher priority than maintaining an urban-growth boundary.
3. Open space programs should focus on providing recreation areas, wildlife habitat, and watershed conservation, not on trying to prevent so-called sprawl.
4. Impact fees should be reduced to the amounts actually needed to cover any capital costs that would not otherwise be covered by taxes paid by new residential or associated commercial areas.
5. Inclusionary zoning and other so-called affordable housing programs that actually do more harm than good should be eliminated.

Introduction

Homeownership is one of the key pillars of the American dream. The home is not only shelter from the elements, but an investment where each month's mortgage payment is considered a deposit into a savings account. The wealth generated by a home's appreciation over the course of a typical mortgage loan will be many families' largest source of equity.

This equity "can be used for a variety of mobility enhancing activities, such as funding a child's education or starting a business," observes Fannie Mae, the nation's largest mortgager. "Home equity is also an important source of intergenerational wealth transfers."[1]

Homeownership can be an important step in helping low-income families get out of poverty. This is especially important for minorities, as nearly two-thirds of new household growth in the next two decades will come from among minority groups. In recent years, says the Fannie Mae Foundation, minorities have accounted for 40 percent of new homeowners. But increases in home prices could diminish the ability of low-income people to get out of poverty.[2]

Since the mid-1990's the price of the average house in the United States has risen by more than 30 percent as investors fled the stock market into real estate. Yet, despite an economic downturn, homeownership in America continues to climb.[3] The price increase during this housing cycle has been the single biggest increase in the housing market in the last fifty years.[4] Because of this, more and more American families find themselves unable to achieve the dream of owning their own home.

In many growing regions, a major source of the price increase is due to the inability of homebuilders to meet the demand for new homes. In turn, that is due to government land-use rules that create numerous barriers to homeownership. Since these land-use rules drive up the price of existing housing, they have the effect of benefiting the "haves" at the expense of the "have nots." Because "haves" tend to be white while "have nots" tend to be minorities, one recent report described these land-use rules as "the new segregation."[5]

This puts the growth in housing prices in a darker light. In recent years, housing prices in the Denver-Boulder metro area have grown faster than the national average, making Denver one of the least affordable housing markets in the nation. It is striking that all of the other unaffordable housing markets are on the West or East coasts; Denver is the least affordable housing market that is not on a coastline.

This paper will show that Denver's high housing costs are largely if not entirely due to regional and local land-use policies that create obstacles to homeownership. Those policies impose special hardships on blacks, Hispanics, and other low-income families. Yet the benefits generated by those policies often seem slight compared with the costs. This paper will recommend specific changes in policies that will keep housing in Denver as affordable as it is in other regions.

Denver's Unaffordable Housing Market

Does Denver face an affordable housing crisis and, if so, why? In 2003, the National Association of Realtors found only ten metro areas (Sacramento, San Diego, San Francisco, Orange County, Los Angeles, Boston, New York, Washington D.C., Seattle, Honolulu) whose median home sales prices were higher than Denver.

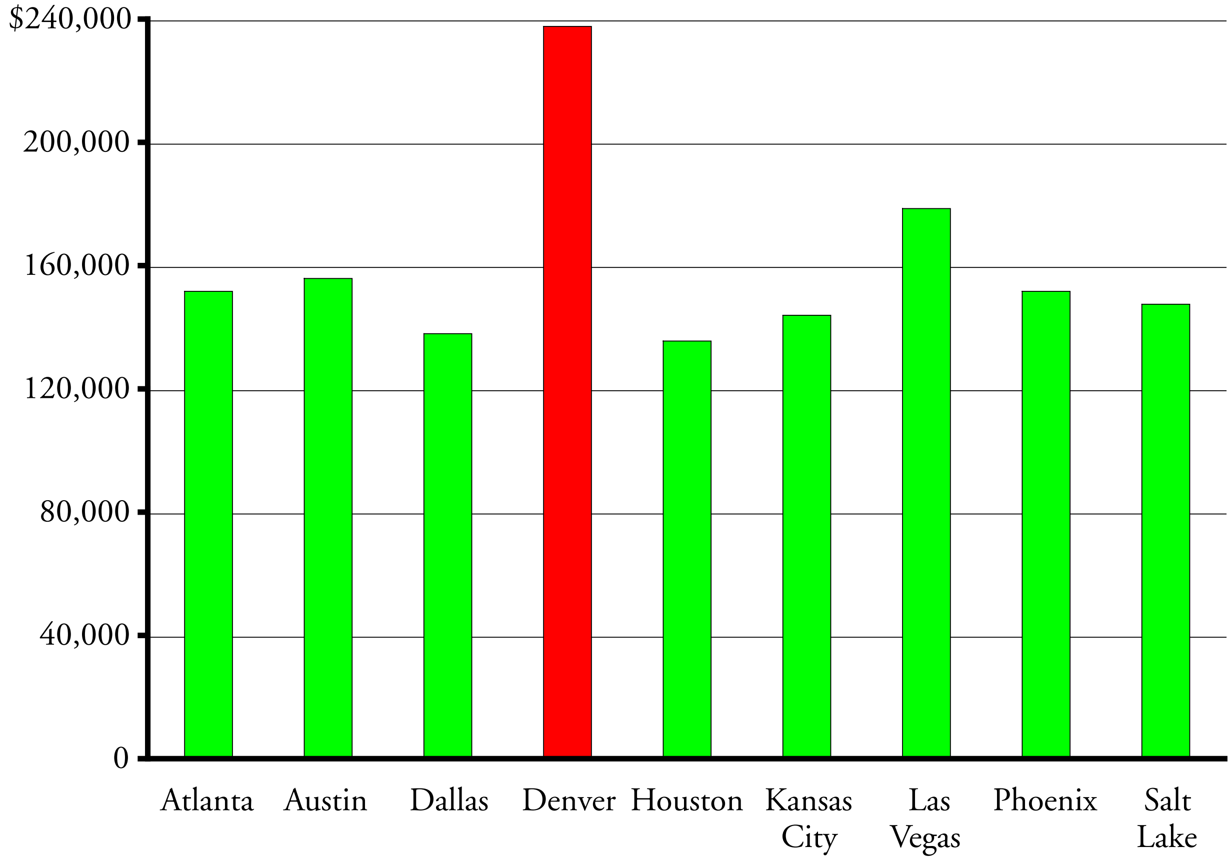
"We have the highest housing prices of any state without a coastline," observes Metro Denver Chamber of Commerce Executive Vice-President Tom Clark.[6] As shown in figure one, Denver's 2003 median house price of $239,300 was considerably more than the prices found in cities traditionally seen as peers.[7]

Few regions have experienced the rapid price increases seen in Denver in the past few years. Between 1994 and 2004, Denver housing prices increased by nearly 140 percent compared with 50- to 80-percent increases in peer regions.[8] Half of these peer regions have been growing considerably faster than Denver, yet the homebuilding industry in those regions has been better able to keep up with the demand for housing. What is preventing the industry with meeting demand in Denver?

Higher prices reduce the number of Denver metro families able to afford homes. According to the National Association of Home Builders, a median-income family could afford 82 percent of homes on the market in the Denver area in 1993. By 1997, this had fallen to 66 percent and it fell further to just 60 percent in 2002.[9] Out of 181 major housing markets, Denver was the twelfth most affordable in 1993, 79th in 1997, and 146th in 2002.[10] The ability of families to purchase a home in the region is becoming increasingly difficult.

An analysis by the Colorado Division of Housing examines a number of key professions and their ability to purchase a median-priced home. Assuming people spend 40 percent of their income on housing (which is

Figure One: Median 2003 Metro-Area Housing Prices



Denver has the highest housing prices of any major housing market that is not on a coastline. Source: National Association of Realtors, Metropolitan Area Prices: 2003 *(Washington, DC: NAR, 2004), http://www.realtor.org/Research.nsf/files/REL04Q2T.xls/$FILE/REL04Q2T.xls* high):

- A truck driver making $32,400 can afford a $109,298 house.
- An elementary school teacher making $36,780 can afford a $124,073 house; and
- A police officer making $43,000 a year can afford a $145,056 home.[11]

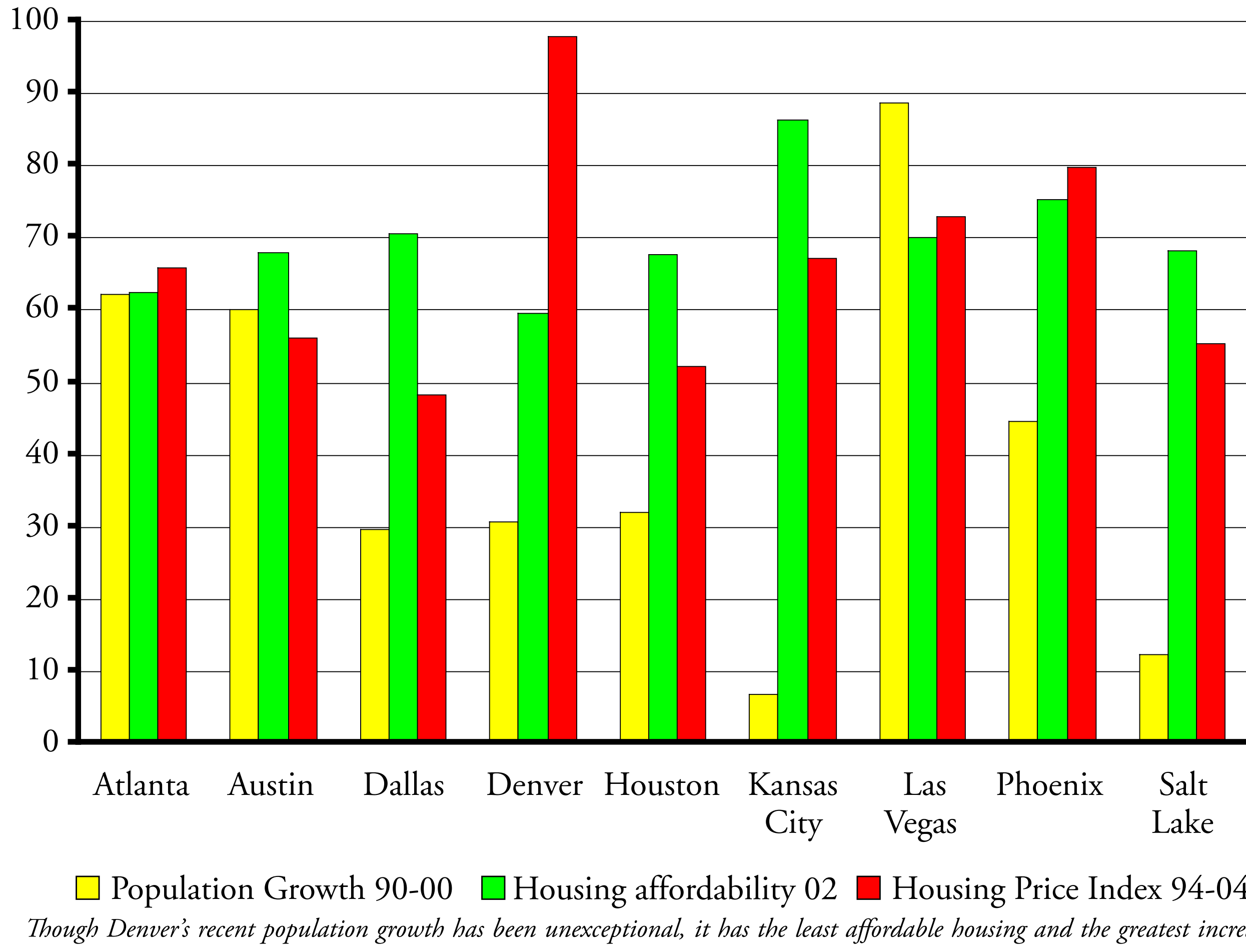
All of these, of course, are well below the $239,300 median price for a Denver home.

Another disturbing indicator that the housing market in Denver is escalating beyond the many families' reach is the declining number of low-income households that own their own homes. Between 1990 and 2004, the number households with an income of $30,000 to $34,000 that owned their own homes dropped from 37,959 to 31,855. According to the Colorado Division of Housing, homeownership increased in all brackets above $45,000 per year but declined in all income brackets below $45,000 per year.

In January 2004, the Bush administration proposed a "zero down-payment" plan that would help an estimated 150,000 people purchase their own homes each year. "This is very exciting news for first-time homebuyers," exclaimed U.S. Housing and Urban Development Assistant Secretary John C. Weicher.[12] The Secretary explained that the single biggest obstacle for people desiring to enter the housing market was the ability to provide the 3-percent down payment required to obtain a Federal Housing Administration insured loan.

Yet in the Denver-Boulder area, the real stumbling

Figure Two: Growth and Housing Affordability



Though Denver's recent population growth has been unexceptional, it has the least affordable housing and the greatest increase in housing costs over the last decade of any major city in the interior U.S. "Housing affordability" is the percentage of homes affordable to a median-income family. "Price Index" is the percentage increase in housing prices in the last decade. Source: Population growth of urbanized areas from the 1990 and 2000 censuses; housing affordability from the National Association of Home Builders, Housing Opportunity Index 2nd Quarter 2002*, http://www.nahb.org/fileUpload_details.aspx?contentID=536; price index from Office of Federal Housing Enterprise Oversight,* House Price Index 2Q 2004 *(Washington, DC: Department of Commerce, 2004), http://www.ofheo.gov/media/pdf/hpimsa_04q2.xls.*

block to home ownership is the ever-increasing price tag on new homes. Three percent of a $250,000 home is significantly more than 3 percent of a $150,000 home.

In recent years, a number of different organizations with standing in the housing market have voiced concern about the increasing lack of affordable housing in the country. "There is a continuing growing crisis in housing affordability and homeownership that is gripping our nation," says the National Association of Realtors.[13] "America is facing a silent housing affordability crisis," agrees the National Association of Home Builders.[14]

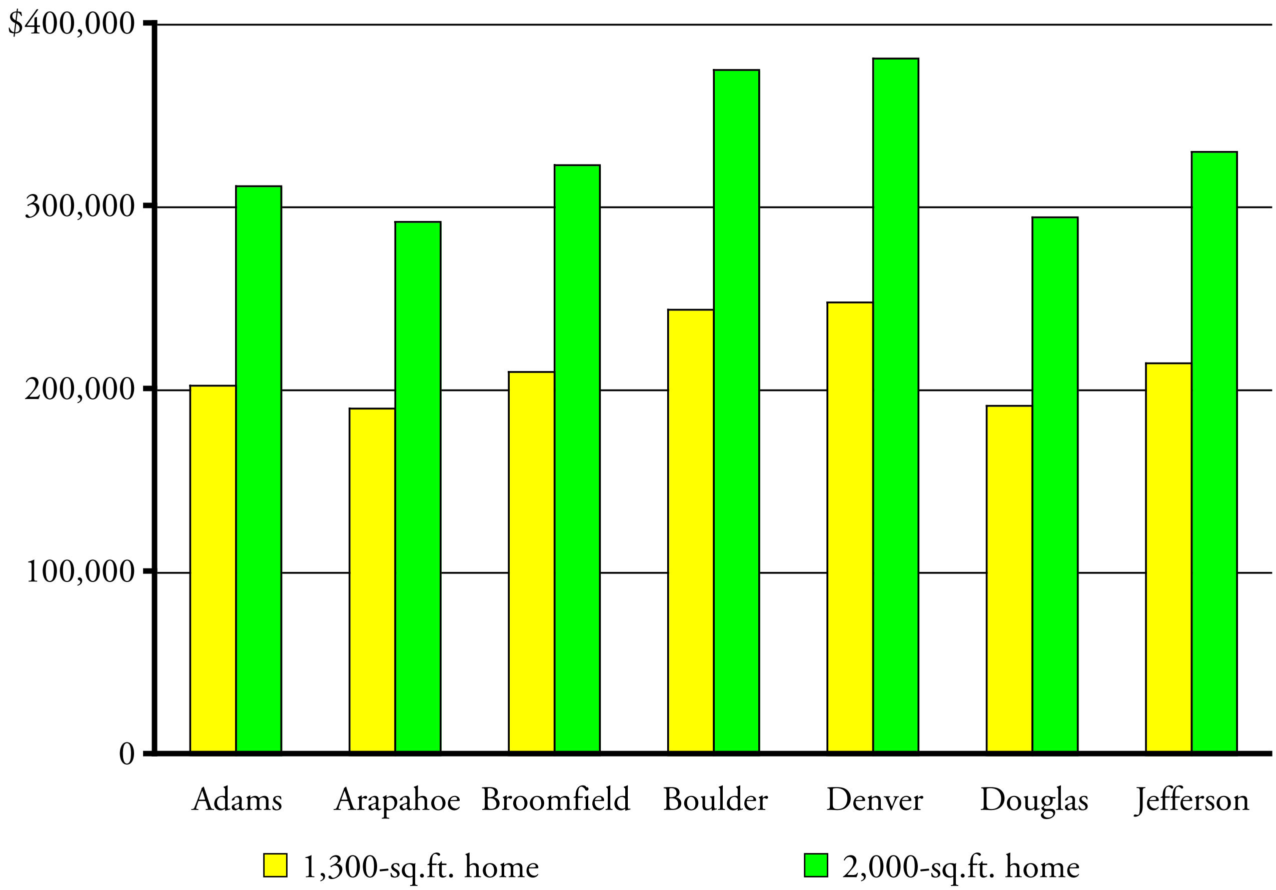
The Denver metro area has a serious problem with housing affordability. As of January, 2004, the cost of a "modest home with 1,300 square feet, three bedrooms, and two bathrooms"[15] averaged about $170,000 in Colorado. To afford the mortgage payments on such a home, a family's annual income would have to be about $50,000.

Such homes cost more in the Denver metro area than in most of the rest of the state, ranging from $190,000 in Arapahoe County to $244,000 in Boulder County (figure three).[16] While the Denver metro area's median household income of $58,700 might be barely sufficient to afford homeownership in Arapahoe or Douglas County, close to half the families in the region cannot afford to buy a 1,300-square-foot home at current prices. Only a small minority of families can afford to buy a 2,000-square-foot home.

Minority families will have an even tougher time trying to buy their first home. The 2000 Census indicates that Hispanic households in the Denver metro area have a median income of $37,340 while their African-American neighbors trail them slightly at $35,658. This means the average Hispanic or black household could purchase a home costing $120,000 to $130,000, well below the cost of most homes in the Denver metro area.

Even a two-bedroom, one-bath starter home is out of sight for most minority families: Realtor Dave Pierce estimates that such a home averages $170,000

Figure Three: Estimated 2004 Home Prices



A median-income family in the Denver metro area can afford to buy a $200,000 home, which leaves it with few options in today's housing market. Source: Value West, Inc., Cost of Housing Analysis *(Denver, CO: Colorado Division of Housing, 2004).*

to $175,000 in the Denver metro area, ranging from a low of $160,000 in Commerce City to $200,000 near downtown Denver. Assuming a $10,000 down payment at a 5.5 percent interest rate over 30 years, 55 percent of non-Hispanic white households can afford this starter home compared to 49 percent of Asian households, 34 percent of Hispanic households, and only 33 percent of black households.[17]

During the 1990s, the non-Hispanic white population of Colorado grew by 23 percent and the black population grew by 24 percent, but the Hispanic population grew by 73 percent. Blacks and Hispanics continue to have disproportionately high numbers of members in low-income brackets.

Sadly, the prices of homes in the state have been a stumbling block to people of color owning their own home. In Colorado, 71 percent of non-Hispanic whites own their own home compared the 45 percent of blacks and 53 percent of Hispanics.[18] According to the U.S. Census of 2000, the Denver-Boulder metro area is home to 119,000 blacks as well as 467,627 Hispanics.

The 2000 Census found that the Denver-Boulder-Greeley metro area has a total of 666,592 owner-occupied households, 89 percent of which are white. Hispanics make up 18.5 percent of the population yet own just 9 percent of the housing units.

Minority gains in homeownership since 1990 remains slight and in some instance, questionable. The Hispanic homeownership rate increased from 51 to 53 percent between 1990 and 2000. But Hispanic families often pool resources to buy one home for several families, which can exaggerate the apparent rate of homeownership. Homero Lopez of Commerce City works with the Hispanic population in the area and states that often he has seen three or four families purchase a house together.

"The reality of buying a house, in groups or as a single family, has stretched many minority home-buyers to their limits."[19] says Laura Martinez of NEWSED, a Hispanic development group. "Many of the families who come to see me work from paycheck to paycheck. With all of the obstacles they have overcome, it's amazing we can put them in a house. But we are!"[20]

Black homeownership rates rose to from 39 percent in 1990 to 46 percent in 2000. But Asian homeownership rates declined from 55 percent in 1990 to 51 percent in 2000.[21] All of these remain well below the rates for non-Hispanic whites.

Other groups also struggle with housing affordability in Denver. According to the Colorado Division of Housing, young families are increasingly unable to move from rental housing into their first home. "A working family making $20,000-$25,000 per year qualifies for a mortgage on a $80,000 home, yet very little housing exists in that price range in the major population centers in Colorado."[22] Another hard hit group is the elderly. Data from the Division of Housing states that the increasing cost of housing is forcing more than 40,000 of Colorado elderly residents to spend 50 percent or more of their monthly income on shelter.

The Causes of Unaffordable Housing

Many people credit the Denver region's high quality of life with producing high housing prices. People are moving here to enjoy the sunshine, mountains, and the outdoor environment, they say, and that drives up housing costs.

Yet this notion doesn't explain why homebuilders in other regions that are growing much faster than Denver have been able to keep up with the demand for housing, yet homebuilders in Denver cannot. Las Vegas, which is growing three times as fast as Denver, has a serious shortage of private land. No such shortage exists in the Denver region. Yet Las Vegas housing remained affordable long after Denver's became unaffordable.

High housing prices found in the Denver metro area do not result from any physical limit on the supply of land. Throughout the metro region there are vast swaths of undeveloped land. Instead, they result from the limited supply of housing imposed by government barriers.

In *The Impact of Zoning on Housing Affordability*, Harvard economist Edward Glaeser and Wharton Business School economist Joseph Gyourko note that most people assume that houses are expensive simply because the land is expensive. Certain areas, because of their weather, geography, schools, etc. are highly desirable as places to live. The high demand on a limited supply creates a higher-priced housing market.

Yet Glaeser and Gyourko find there is actually plenty of land available in many high-priced regions. Instead, housing in those regions has become expensive "because of artificial limits on construction created by the regulation of new housing. The barriers to building create a potentially massive wedge between prices and building costs."[23]

The State of Colorado's November 2000 report, *Affordable Housing Regulatory Barriers Impact Report*, defines regulatory barriers as:

> either a deliberate or de facto action that prohibits or discourages the construction of affordable housing without sound reasons directly related to public health and safety; a federal, state, or local statute, ordinance, policy, custom, practice, or procedure that excessively increases the cost of new or rehabilitated housing, either by improperly restricting the location of the housing, or by imposing unjustified restrictions on housing development with little or no demonstrated compensating benefit.[24]

There are four kinds of regulatory barriers in the Denver area:

1. Obstacles created by the zoning and design-review process;
2. The urban-growth or urban-service boundary imposed by the Denver Regional Council of Governments' Metro Vision plan;
3. Efforts to protect open space;
4. Impact fees.

Regulations

Every municipality in the region has imposed regulations on homebuilders and property owners that increase the cost of housing. Anything that drives up the cost of new homes also leads to an increase in the price of existing homes, as homeowners take advantage of the increased cost of building a new house.

The most obvious such rules are the growth limits imposed by such cities as Boulder and Golden, which limit the number of building permits that can be issued in any given year. These growth limits have made Boulder the least affordable city in the region.

But even cities without growth limits have numerous regulatory hurdles that are barriers to home ownership. David Gertz, the owner of Sunshine Master Builders, one of the largest homebuilders in the region, notes that an important effect of many of these rules is to delay the amount of time it take to get a permit to subdivide or build. This increases the risk faced by the homebuilder and the cost of borrowing money for the project. Denver banks understand how many municipalities work and often withhold financing on uncertain projects, requiring developers to find more expensive sources of funds.

"In a city like Dallas," says Gertz, "approval times are measured in months as opposed to Denver where they are measured in years."[25] Not surprisingly, as shown in figures one and two, homes tend to be less costly and more affordable in Dallas than in Denver.

"Developers must frequently submit to multiple, time-consuming reviews of the same documents by numerous different city agencies," says Pat Hamill of Oakwood Homes, another large homebuilder. "Extended review times translate into extra costs for the developer and the consumer."[26] Glaeser and Gyourko estimate that, when the time it takes to get a permit is doubled, "15 percent more of the housing stock becomes quite expensive."[27]

In some cases, the problem isn't the regulations themselves but the cities' attitudes towards them. While most cities have zoning rules, some use them constructively and others use them as obstacles. Gertz notes that cities such as Dallas "view the developer much more positively," whereas cities in the Denver area "take on a much more obstructionist attitude.

This opens up opportunities for NIMBYs (not in my backyard) who object to developments near their homes—or in some cases to any new development at all. NIMBYism has a strong resonance in Colorado, where "Native" or "No Vacancy" bumper stickers decorated with a replica of Colorado's license plate are common. The Colorado Affordable Housing Project (CAHP) says, "The sentiment of NIMBY or 'Not In My Backyard' contributes to the affordable housing crisis by severely slowing, limiting, and even stopping development solutions."[28] The U.S. Department of Housing and Urban Development notes that NIMBYism in the form of "excessive growth controls, exclusionary zoning ordinances, unnecessarily drawn-out permit and approval processes, and arbitrary restrictions against special types of housing [have] combined to make housing less affordable for many households."[29]

NIMBYs and elected officials end up supporting one another in development battles. The NIMBYs create a political movement against growth or development. The officials create processes that allow NIMBYs to delay projects. This encourages the NIMBYs by giving them positive feedback for their efforts.

Other regulations increase the cost of projects without necessarily being obstructionist. Hamill provided an example where Oakwood Homes is able to do projects in Highlands Ranch with 20-foot paved easements for water lines. But Denver requires 30-foot easements, which adds $1,800 to the cost of each home, even though all the evidence shows that 20 feet are sufficient for reliability and maintenance.[30]

Gertz adds that cities often change conditions after granting permits or even after construction has begun, thus increasing the cost of the project. In another case, Gertz's company was directed to build a street to collector standards, but after the street was built the city decided to use it as a local street instead, which would have cost much less to build.

As a Denver land-use attorney who asked to remain anonymous for this paper said, "There is no set standard where you know as a builder that if you meet that standard, you will be given the permit." An approval process that is often piecemeal and fragmented, said the attorney, drives up development costs.

While some cities have deliberately designed their land-use rules to slow growth, most have not. Though they have written their rules with good intentions, those rules have had the unintended consequence of making homeownership less affordable to many if not most of the people in the region who do not already own their own homes. The "sometimes intended" result, says the National Association of Home Builders, "is to restrict those who can live in some areas to only the wealthiest. The greatest impact falls on young families, first time home buyers, minorities, and others on a limited income."[31]

Metro Vision Plan

The Denver Regional Council of Governments (DRCOG) is an association of more than fifty county and city governments that make up the greater Denver area. DRCOG coordinates long-term planning in the region.

In 1997 DRCOG "adopted Metro Vision 2020 as the region's long-range plan of action for dealing with growth and development."[32] A major goal of the 2020 plan is to produce "compact urban development and a clear distinction between urban and non-urban areas."[33]

To achieve this, the plan established an urban-growth boundary (UGB) around the greater Denver area. Urbanization is supposed to be limited to land inside the boundary. Effectively, the growth boundary makes the abundant private land in Adams, Arapahoe, Douglas, and other counties unavailable for development.

Each government entity within DRCOG mapped their own area of growth "by identifying open space, environmental constraints, land that is most easily served by infrastructure and services, municipal and comprehensive planning areas, and identification of existing and anticipated large lot development."[34] This produced a boundary allowing for 750 square miles of urban development in the Denver metro area.

Although the boundary established by Metro Vision 2020 is supposedly a voluntary guideline for their member governments, those governments nearly always defer to DRCOG's Urban Growth Boundary in regards to their development plans. Moreover, most of the regions cities and counties signed a legally enforceable agreement in 2000 known as the Mile High Compact that requires them to keep development within the boundary.[35]

DRCOG is currently revising the Metro Vision plan. To keep from having to expand the boundary, the draft Metro Vision 2030 plan encourages cities to reduce lot sizes, promote more multi-family housing, and redevelop existing low-density neighborhoods to higher densities—ideas sometimes called "New Urbanism."[36]

At least some cities in the region have begun to use the land-use process to promote the compact New Urbanist developments favored by DRCOG. These developments are often subsidized, impact fees are waived, and the regulatory process may be streamlined.

Yet surveys show that most homebuyers prefer a home with a yard in a low-density area. New Urban projects produce housing that is less desirable to homebuyers, and this, not to mention the higher taxes needed to subsidize the New Urban developments, drives up the price of the limited stock of homes that buyers prefer.

Open Space

The open space purchases made by numerous communities in the region have helped to limit the supply of land available for housing. These initiatives combine with the urban-growth boundaries to make it difficult for homebuilders to find land for new homes.

In 1967, Boulder became the first city in the country to approve a tax dedicated to open space purchases. Since then, the city has acquired 44,000 acres of open space—more than three times the land area of Boulder itself. The most recent tax measure even authorizes Boulder to purchase land in adjoining Jefferson County—even though Jefferson County has its own open space program. This is necessary, says a Boulder city councilor, "to prevent growth from Arvada impacting Boulder to the south."[37]

Boulder County has purchased another 77,000 acres, and other cities in the county own close to 4,000 acres more. These municipal open spaces are on top of 175,000 acres of federal and state forests and parks in the county, which means that 63 percent of the county is public open space. This is more than six times the land area of all the cities and towns in Boulder County.

Similar open space programs are found in suburban cities and counties throughout the region. They are popular among many residents because they increase property values—which is another way of saying that they create an artificial shortage of housing. While this artificial shortage may benefit existing homeowners, it represents a huge wealth transfer from newcomers and first-time homebuyers to existing homeowners. Many people who have gotten wealthy from increased housing prices are dismayed to realize that their children may never be able to afford to purchase a house in their home communities.

City officials argue that open space purchases are needed to combat "urban sprawl." But according to the 2000 census, less than 3 percent of Colorado and barely 20 percent of the seven-county Denver metro area have been urbanized. In an effort to protect something that is abundant, the region is adding to a artificial shortage of housing.

Impact Fees

One government action that obviously drives up the cost of housing is impact fees. Denver-area cities typically charge fees for water and sewage hookups, transportation impacts, open space acquisition, schools, and recreational facilities. In 2002, the fees on a house that cost $100,000 to build ranged from $8,500 in unincorporated Jefferson County to more than $22,000 in Arvada.[38]

These fees can sometimes be dramatically increased. In 2002 the City of Denver increased sewer and water charges for new houses from $7,205 to $17,120. Arvada recently increased fees by $4,000 to acquire open space.

City officials argue that people are attracted to communities with amenities such as parks, swimming pools, and open space. So many suburbs in the Denver area have sought to increase their desirability to homebuyers by adding local amenities such as competitive schools, new libraries, expanded museums, and advanced technology and communication services. The problem is that, by catering exclusively to the upper class, they leave no room for low-income people. Moreover, existing residents also benefit from those amenities and may get a free ride from amenities funded by impact fees.

The justification for impact fees is that the property and sales taxes collected from new residents do not cover all of the costs of urban services to those residents. Yet in many cases the taxes collected from existing residential areas do not cover all the costs of services to those areas. The difference is made up by taxes on commercial areas. Since new commercial areas often accompany new residential development, impact fees imposed on those areas represent a form of unfair taxation on newcomers. This is rarely accounted for in impact fee calculations.

Making the Problem Worse

In response to the region's high housing prices, some cities have begun to require developers to set aside a percentage of the units of each new development for "affordable housing." This is known as "inclusionary zoning," and ironically it has the effect of driving up housing prices for most low-income families.

Inclusionary zoning might require developers to sell 10 percent of new homes for less than market value. To make up the difference, the developer will increase the price of the other 90 percent of houses in the development. This higher price gets incorporated into the price of all nearby homes as well as rents, resulting in a win for existing homeowners but a loss for most homebuyers and renters. Two California economists estimate that inclusionary zoning in the San Francisco Bay Area has increased the average cost of new homes by $22,000 to $44,000.[39]

While a few low-income buyers obtain housing at affordable prices, most do not because even the strongest inclusionary zoning ordinances result in far fewer affordable homes than families that need them. Fifty cities in the San Francisco Bay Area have passed inclusionary zoning ordinances, yet at current building rates they will produce only 4 percent of the affordable housing that planners say is needed.[40]

A major problem with inclusionary zoning is making sure that it helps people who are truly poor. A recent analysis of affordable housing built under Denver's inclusionary-zoning ordinance found that most was occupied not by the hard-core poor who were trying to get out of poverty but by young college graduates whose incomes have recently been low but who stand to earn fairly high incomes in the near future.[41] In other words, this is one more program intended to help the poor that has been hijacked by the middle class.

Another problem with inclusionary zoning is that the buyer of an affordable home can earn a windfall profit when they sell it. To prevent this, some cities such as Boulder require "permanent affordability," meaning that buyers cannot sell the houses for more than the price they paid plus the rate of inflation.[42] It might be more appropriate to call this "permanent poverty," because it prevents low-income buyers of affordable homes from taking advantage of genuine increases in equity that most other American homeowners enjoy.

Douglas County has program of offering property tax exemptions and reduced impact fees to developers who provide affordable housing in their developments. Much of this housing is aimed at families who earn 60 to 80 percent of the region's median income of $69,000.[43] This means that other taxpayers will be subsidizing housing for families earning $41,000 to $55,000 a year—which, in most circumstances, would hardly be considered "low income."

The real problem with inclusionary zoning, housing subsidies, and most other "affordable housing" programs is that they do not address the real cause of unaffordable housing: the regulatory and other barriers to new home construction. Inclusionary zoning can actually make things worse by discouraging builders from building new homes and forcing them to charge higher prices from most of the ones they do build.

Glaeser and Gyourko observe that "Building small numbers of subsidized housing units is likely to have a trivial impact on average housing prices, even if well targeted towards deserving poor households."[44] The real solution to affordable housing problems is to fix the causes of high housing prices. "If policy advocates are interested in reducing housing costs," conclude Glaeser and Gyourko, "they would do well to start with zoning reform."[45] Residents and leaders of the Denver metro area would do well to take this advice.

How to Make Housing Affordable

Denver suffers from being one of the least affordable, if not the least affordable, major housing market in the interior United States. Affordability problems can be traced directly to government land-use actions: regulation, urban-growth boundaries, open space purchases, and impact fees.

While existing homeowners are enriched by this artificial boost in land and housing prices, a lack of affordable housing makes Denver less attractive to newcomers—and, in turn, new businesses—relative to Phoenix, Dallas, Salt Lake City, and other peer regions.

More important to many is simply the inequitable nature of the equity gains: people who were wealthy enough to own their own home when housing started to become unaffordable gained, while those too poor to own their own homes lost. Even people who don't care about the poor have to wonder about the effects of unaffordable housing on their children: yes, they may leave a valuable home to their children when they die, yet they will also bequeath a system that won't allow many of those children to buy their own homes.

A true affordable housing program for Denver will require drastic actions:

- The land-use regulatory process must be streamlined to reduce the cost of home construction. One way to do this would be for the legislature to require that the permit process for any residential development should take no longer than, say, 120 days. Municipalities should provide one-stop permitting so that homebuilders don't have to have their plans reviewed by numerous different committees and agencies.
- DRCOG must reconsider its "compact city" goals, which don't reflect the actual preferences of most Americans. The idea that personal preferences, affordable housing, and other measures of the quality of life must all be sacrificed in the name of curbing urban "sprawl" is absurd in a state that is better than 97 percent open space.
- Cities and counties with open space programs must focus those programs on providing recreation areas, wildlife habitat, and watershed protection, not on trying to prevent so-called sprawl by buying all developable building sites.
- Cities and counties should carefully review impact fees to insure that they truly reflect the cost of providing services and are not being used as a punitive measure to prevent growth. Wherever possible, the cost of urban services should be captured in actual user fees, not in impact fees or taxes. Cities should also consider the possibility of reducing urban-service costs through privatization, as has been successfully done in Indianapolis and other cities.[46]
- Inclusionary zoning and other so-called affordable housing programs that actually do more harm than good should be eliminated.

These programs will not be popular with people who oppose growth. Yet those people have to ask themselves whether their slow-growth/no-growth policies are really worth the cost of immobilizing a large segment of the population as a permanent underclass that will never be able to afford their own homes or to use those homes to help them out of poverty.

People who already own their homes may worry that these policies will result in a loss of their property value. It is more likely that they will merely slow the appreciation of their home values until the market has caught up with the demand for new housing.

Most Americans pay lip service to helping minorities and other low-income people out of poverty and providing affordable housing for everyone. Those who truly believe in these goals should support policies that will truly achieve them.

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