

# Q&A: Experts discuss the affordable housing crisis

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Cities across the country are feeling the weight of a shortage of affordable housing. Economic growth, fluctuating interest rates and an expanding short-term rental market have collided with supply shortages

and antiquated zoning laws to place an even greater strain.

In August, Colorado Gov. Jared Polis signed an executive order aimed at addressing the problem. It speeds up loans and grants for affordable housing projects and sets "strategic growth goals" for Colorado, including denser growth that uses fewer resources and features increased access to public transportation.

To explain current affordable housing issues and explore solutions, the Daniels College of Business Newsroom turned to two faculty in the Franklin L. Burns School of Real Estate and Construction Management. Vivek Sah, director of the Burns School, and Eric Holt, an assistant professor, analyzed the situation in an interview.

## **Simply put, why is this affordable housing crisis happening?**

Sah: The primary reason for the affordable housing issue is [economic growth](#). Cities like Denver, Nashville and Phoenix have all seen tremendous growth in the last five or six years, for multiple reasons. One of them is that these cities are just beginning to reach their potential in terms of all the factors people look at when they consider a city to move to—large airport, big education institutions, a very educated demographic.

These are also cities that are insulated from the types of natural disasters we see in places like Florida and California, which also have a high cost of living. The real estate industry, whether it's multifamily or [single-family homes](#), cannot produce anything without at least a couple of years of lag. That lag led to increased cost, and [construction costs](#) also went up during the same time.

At the same time home prices were going up, we had very low interest rates as well. People moving here from markets with higher incomes were bidding prices up higher than they normally would be. And then, within a year of that, we moved to a 7% interest rate, so now people don't want to sell. That presents another affordable housing problem, because now there is less stock. Supply is being constrained, at least on resale properties. Those prices have not come down, and people don't want to sell because if they sell, they will have to take a very high mortgage.

## **What is driving the shortage from a construction and development perspective?**

Holt: A lot of the things that affect affordability, especially here in Denver, start with land cost. Everybody wants to sell their land at a premium, so developers are buying land to turn into homes at a premium. On top of that, Denver has some very unique soil conditions. We've got this expansive clay that, if you don't treat it properly during development, can cause a lot of structural damage. [Treating it] adds about \$50,000 per lot just in development costs. Then, between the entitlement cost and the permitting fees, a lot of times a finished lot in the Denver market comes in at \$90,000-\$150,000. In other markets, I could buy the same finished lot for \$40,000. That's another reason affordable housing is a problem in our market.

## **Do labor and materials costs play a role as well?**

Holt: During the construction crash of 2006-11, a lot of labor went away—people retired, people got out of the business—and they did not come back when the market came back. So now, one of the biggest construction industry problems is labor. And the labor that is out there knows it and is charging a premium for it.

Then you have the inspections and the permit fees. I do a lot of consulting work back in Indiana, where I grew up, and they complain about a two-week permit fee process and paying \$1,500 for a permit. Here in Denver, that permit fee process could take 3-12 months and cost \$50,000. Inspections are another issue. When I was building in the '90s, we would have between 7-12 inspections. Now there could be 24, 30, 36 inspections. That just adds time and cost.

## **How has all of this affected the concept and availability of home ownership?**

Sah: The American dream is home ownership, which went down considerably after the great financial crisis in 2008–09. We are back up to 63% or 64% nationally, but in cities like Nashville, that have seen so much growth, that number is definitely not the same. One of the issues is economic. If you look at being able to get a conventional mortgage, you need to put 20% down. That number increases as prices goes up—20% of \$400,000 is \$80,000, versus 20% of \$600,000 is \$120,000.

If your wages go up, that might offset the cost of an increased monthly payment, but if home prices go from \$400,000 to \$600,000 in two years, to be able to save \$40,000 in two years is very difficult. After the great financial crisis, the banks have become very tight in terms of their lending requirements.

Getting a loan with anything less than 20% down is very challenging, and if you can do it, they ask for a lot of additional costs up front. That has impacted a lot of people, despite the wage growth we have seen. There's a large part of the population that is going to be permanent renters for this reason.

In addition, the great financial crisis created a permanent shock in a



certain demographic. They saw their parents lose their homes in 2008 or 2009, and they are now either totally against [home ownership](#) or deferring it to a much later time in their lives. That earlier crisis created a psychological barrier to owning a home and looking at a home as an asset for building long-term equity, even though that's still the best way to build long-term wealth.

**If you were in the governor's seat right now, what is the one thing you would do or a bill you would pass that would help this situation?**

Holt: Lowering or changing different zoning laws. For example, there are so many backyard, alley-load subdivisions in the older Denver neighborhoods, some of them really close to the DU campus, where they have enough room in the backyard for another unit. They could do an alley-loaded cottage house. Instead of scraping these older homes and putting up a McMansion, they could keep the older home and double the density of that lot with very little impact to infrastructure.

The sewers could handle the double density, so could the electrical panel, the water lines. Thousands of smaller cottage homes could be built in Denver; they either could be rental property for the current owner, or they could sell it off. It would greatly impact the density and fix some affordability issues, but the [current] zoning won't let it happen.

Sah: One of the things they do [in San Diego] to encourage developers to include affordable housing in their larger projects is providing bonus density, which lets you build more on another project in exchange for devoting a portion of the current project to affordable housing, as well as providing an expedited permitting and title process.

If you have a large project and you devote 20% of it to affordable

housing, then the city will give you bonus density as well as an expedited clearance on your approval process. Down the road, Gov. Polis' office will have to consider those kinds of measures.

Provided by University of Denver

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