Appendix D: Barriers to Housing Production

Purpose

The Denver Regional Council of Governments (DRCOG) has conducted a Regional Housing Needs Assessment to establish an objective, data-driven understanding of the baseline housing need for both the current and future population of the Denver region. The results of this Regional Housing Needs Assessment show that the region needs to build 511,000 units by 2050 to meet current and future housing needs.

Two key challenges in meeting this goal include building housing that supports the diversity of housing needs across all income levels and household types and ensuring that diverse housing options exist across the region's submarkets. Across the region, the production of market-rate housing has kept better pace with the demand from higher income households. This level of production needs to be sustained to continue meeting projected needs. At the same time, the region will need to significantly increase the production of affordable housing, especially for the lowest income households to meet the scale of existing and future needs.

Given the scale of current and projected need estimated in the Regional Housing Needs Assessment, this memo focuses on the barriers specific to producing more housing than currently exists. Identifying these barriers to production is a crucial next step for the region to develop policies and actions that are responsive to regional and local contexts.

Barriers to housing production

The barriers to housing production are varied, operate at multiple levels, and interact in complex ways. These obstacles are not uniform across the region; they vary significantly depending on the unique characteristics of each geographic location and evolve over time in response to changing circumstances. Typically, it is the combination and intersection of these barriers that hinders housing projects—especially those affordable at low and moderate incomes—either by preventing them from moving forward altogether or by resulting in the development of fewer units than what might be allowed or desired under current conditions.

The interplay between factors such as market conditions, the regulatory environment, infrastructure availability, political context, and financial resources can lead to unexpected outcomes. Examples of those development outcomes might include:

- Places with more restrictive zoning but strong market demand are likely to see some development despite the zoning limitations, but the housing might only serve high-income households and may not align with community goals.
- In cities with less restrictive zoning and cohesive community goals, along with strong market demand, developers may build a broader range of housing types, including apartments, townhouses, and single-family homes.
- A city with less restrictive zoning but weak market demand and infrastructure constraints might experience limited housing development. In this case, developers may be hesitant to invest in new projects due to the lower rents and expected returns.
- Suburban areas with more restrictive zoning, moderate market demand, and adequate infrastructure might see the development of primarily single-family homes on large lots.

To help build a strategic framework that addresses both the broad issues and the on-the-ground experiences in the region, this memo categorizes the barriers into key groups, acknowledging the nuanced and multifaceted nature of the challenges faced in developing housing to meet a wide range of needs.

Land use and zoning

Land use refers to the way in which land is utilized and managed, including how land should be allocated for various purposes, such as residential, commercial, industrial, agricultural, recreational, or conservation areas. Land use planning provides a vision for future development within neighborhoods, districts, towns, cities, counties, regions or other defined planning areas. Local jurisdictions play a crucial role in determining the balance of land uses within their boundaries through comprehensive plans, zoning ordinances, and development standards. They aim to ensure that the allocation of land aligns with the community's vision, goals, and priorities while considering factors such as economic development, environmental sustainability, and quality of life.

Zoning regulates local land use by establishing guidelines and restrictions used to control and guide property development in various areas within cities, towns, and counties. Communities are divided into districts or zones, each with specific regulations governing allowed uses, building size, density, parking, open space and other development standards.

Barrier	Results on the ground	Relates to
Restrictive zoning	Development regulations vary widely by submarket and at the local level—some jurisdictions have made big changes in adapting their codes while others haven't been substantially updated in decades, even as demographic shifts have changed the demand for housing. ⇒ In many communities, much of the land is zoned only for detached single-family (one unit per lot). ⇒ Standards for the size and shape of buildings, paired with site requirements such as on-site parking and open space may prevent projects from achieving the number of housing units allowed in a zone. ⇒ Where allowed, multifamily and middle housing types are often subject to more rigorous design standards, lengthy review processes, and public hearings compared to single-family developments. ⇒ Mandatory inclusionary policies in some communities may reduce feasibility and thus constrain development of both affordable and market rate housing.	• Development costs and market factors • Political will and collective action
Discretionary review processes	Permitting processes that require special review for use or design slow down the process, increasing risk and costs for new housing projects. ⇒ Conditional review for higher density or specific uses (e.g., affordable housing) are common. ⇒ Discretionary standards for size, scale, building materials and other design elements make the approval process unpredictable and highly variable across communities. ⇒ Public hearings create opportunity for opposition which can disproportionately affect multifamily or affordable housing, thereby reinforcing historic exclusionary patterns.	• Funding and finance • Political will and collective action
Jurisdictional capacity	Many cities and towns—especially smaller ones—do not have enough staff or capacity to process permit applications at the scale and speed necessary to meet need.	• Infrastructure • Funding and finance

	⇒ Capacity challenges increase when there are discretionary reviews involved, or if applications require zoning changes to address restrictive rules. ⇒ Limited capacity and staff turnover can make it difficult to provide consistent and clear guidance to applicants, requiring multiple rounds of revisions. ⇒ Staff are less able to research and implement new policy or program opportunities that might support housing development, including grants.	
State tax policy	Colorado tax structure affects local decisions about allocating more land for residential uses. ⇒ Commercial property tax rates are about four times higher than residential rates and retail sites can generate municipal sales tax, so local governments prioritize commercial zoning set asides for local revenue. ⇒ Additional housing can create challenges for school capacity and the Taxpayers Bill of Rights (TABOR) makes it difficult for school districts to respond to increasing enrollment resulting from housing development as additional local funding requires voter approval.	• Political will and collective action
Incentives not matched to needed housing types	Many local governments offer zoning incentives—such as increased site coverage, reduced parking, greater density, or waived infrastructure fees—to encourage specific building types ⇒ Incentives are not always well matched with the kinds of housing needed in a community. ⇒ Incentives might be paired with additional requirements that reduce or eliminate the additional value created through the incentives. ⇒ Incentives may not be aligned with market conditions to make desired housing feasible.	• Infrastructure • Development cost and market factors • Funding and finance • Political will and collective action

When neighboring towns, cities and counties have vastly different approaches to governing land use and zoning it creates an uneven patchwork of housing availability and affordability across the region, where residents must compete for a limited supply of housing in more affordable markets. Ultimately, the lack of a cohesive, regional approach to land use and zoning can undermine efforts to create diverse, affordable, and well-connected communities for all residents.

Infrastructure

Infrastructure refers to the fundamental facilities and services that support a community's development and operation. In the context of housing, key infrastructure includes transportation networks such as roads, public transit, sidewalks, and bikeways; water and sewer systems; stormwater management systems for collecting and treating runoff; energy sources such as electricity and natural gas; and community facilities such as schools and parks. The costs and construction of new infrastructure are often shared between the private and public sectors where private developers install infrastructure related to their projects and public sector agencies provide and maintain larger, off-site infrastructure systems, funded through taxes, user fees, and impact fees charged to developers. However, over time, the roles of the private and public sectors in providing and funding infrastructure projects have become more blurred due to funding challenges. Increasingly, private developers are required to contribute more to off-site infrastructure improvements, while public agencies need to explore innovative partnerships and financing mechanisms to deliver and maintain necessary facilities and services.

Barrier	Results on the ground	Relates to
Limited funding for infrastructure	Costs to expand infrastructure are exacerbated by inflation, labor, and supply chain issues, and local sources do not often meet the full costs of meeting infrastructure needs. ⇒ TABOR provisions encourage reliance on increasing user fees to fund infrastructure projects that support new development, which can burden existing residents. ○ Utility fees are capped for income-restricted residents, so higher user fees can create a financial gap for affordable housing. ⇒ Perception that funding and financing mechanisms such as impact fees and metro districts can increase costs for new homebuyers through higher sales prices or property taxes. ⇒ Jurisdictions risk taking on extensive bond obligations that can strain budgets and limit flexibility to respond to changing needs or economic conditions. ⇒ Jurisdictions and utility providers try to balance new capital investments with financial obligations to the maintenance and operations of existing infrastructure systems.	• Development cost and market factors • Funding and finance

	⇒ Utility providers may be willing to reduce or waive fees, but do not always have a plan to backfill lost revenue.	
Grant writing capacity	Some local governments have entire teams dedicated to applying for and managing grants, but other communities might lack staff capacity and technical expertise to take on this work. ⇒ Matching requirements are more challenging for smaller communities to meet.	• Funding and finance
Limited existing capacity	Infrastructure systems might have limited existing capacity. ⇒ Utility companies are not always able to take on or support system expansions, limiting the capacity for new development in areas that are otherwise suitable for growth. ⇒ Communities may use infrastructure limitations as a reason to limit or deny new housing development, citing concerns about traffic congestion, water shortages, or overburdened public services to constrain growth. ⇒ Non-housing uses also compete for capacity on exising systems, such as state and local goals related to building and vehicle electrification.	• Funding and finance • Development costs and market factors
Multiple service providers	Many jurisdictions have several service providers, creating challenges for local and regional coordination on aligning housing and infrastructure development. ⇒ Local governments may initiate local efforts to reduce the cost of housing development through reducing or waiving development fees, but utility districts may not have the same internal motivation to participate.	• Political will and collective action
Access to opportunity	Robust regional transportation planning has designated areas of opportunity for housing, but these areas can be difficult to develop or preserve affordable housing options. ⇒ Areas that are destination-rich, compact, walkable and/or well served by existing transit have higher land costs. ⇒ Many regional transportation investments are in the planning stages; developers may be reluctant to invest in those areas until the infrastructure is closer to completion which can create challenges for meeting current and future housing needs.	• Development costs and market factors

	⇒ Communities along historically underinvested corridors have concerns about the loss of more affordable housing options when the real estate market responds to regional transit improvements.	

When infrastructure is inadequate or lacking, developers may be required to fund improvements themselves, such as building new roads, extending utility lines, or upgrading larger facilities to increase capacity. These added costs can make housing projects less financially feasible, especially for affordable housing. This can disproportionately impact low-income or historically disadvantaged communities where infrastructure needs are often the greatest, perpetuating the lack of investment and limiting housing opportunities in these areas.

Development costs and market factors

The most important factor determining whether and what kind of housing gets built in our communities is financial feasibility. Both for-profit and nonprofit developers need the expected revenues of a finished project to at least cover the cost of repaying loans, providing a return on any investor equity, and covering their staffing and operational expenses. Local policies contribute to total project costs—regulations governing the size, unit density, materials and other design factors all affect a project budget. At the same time, broader market conditions influence the basic costs of development in ways that can make housing more expensive or less likely to be built.

Barrier	Results on the ground	Relates to
Interest rates and insurance costs	Higher interest rates on commercial lending and rising insurance rates for construction can make market rate and affordable housing projects infeasible. ⇒ Increased costs slow down development activity for all types of housing. ⇒ Affordable housing projects need more funding to close the gap between development costs and limited rental revenue.	• Funding and finance
Land and water prices	When the region experienced rapid population growth, the demand for land and water in the region increased, putting upward pressure on prices. ⇒ Public agencies with land holdings may be hesitant to sell land at reduced costs or donate land for housing development due to lack of new revenue options. ⇒ Securing and demonstrating adequate water supply can add costs beyond the infrastructure to deliver water.	• Infrastructure • Funding and finance
Shortage of construction labor	Construction industry employment has not recovered from the decline during the Great Recession.	

	⇒ Challenge in both urban and rural areas across the region. ⇒ Attracting and retaining employment in the industry is further challenged by high housing costs and the boom/bust cycle of development in Colorado. ⇒ In addition to an overall shortage, there can be a mismatch between the local construction workforce and the skills needed for different scales and types of projects.	
Construction defect liability law	Colorado's construction defect liability law for condominiums allows claims to be filed 6–8 years after construction is completed. The chance of litigation increases risk for developers, which drives up the rates charged by insurers, and ultimately increases the per unit costs. Some developers also opt to build condo projects with more expensive materials like concrete and steel to reduce some of the risks of construction defects compared to wood frame buildings, which also makes condos more expensive. ⇒ Fewer developers build dense housing for ownership ⇒ Condos are more expensive per square foot and generally not affordable to households earning below median incomes	• Funding and finance • Political will and collective action

While some market factors affect the entire region (or country), others—such as land prices—vary across the Denver region's different communities. The interaction of macroeconomic and regional submarket and local conditions will shape the kind of housing that is feasible across different jurisdictions, which may not align with communities' priority housing needs or desired outcomes. Understanding how these factors affect development and acknowledging how they shift over time can help jurisdictions create a suite of approaches to get the housing needed to serve local and regional needs.

Funding and finance

The terms "funding" and "financing" are often used interchangeably, but there is an important difference between the two. Funding describes the ultimate sources of money to pay for development costs and generally comes from private developers (for-profit or nonprofit) and investors or public sector partners (whether from local revenue sources, state funds, or federal funds). For affordable housing especially, the limited amount of funding available from all sources is the primary challenge to ramping up construction and preserving the affordable housing that already exists.

Financing describes mechanisms to distribute funding, such as loans, grants, and equity investments (among others). The features and requirements of different financing tools have implications for development costs, and some tools are better suited—or restricted, as in the case tax credits—to certain kinds of development. Even jurisdictions that have limited sources of funding may be able to adjust how they finance development in order to better leverage funds to meet housing production needs.

Barrier	Results on the ground	Relates to
Over-reliance on limited tax credits	Federal Low Income Housing Tax Credits (LIHTC) are the largest source of funding/financing for affordable housing. Annual allocations to states are set by a formula based on population. ⇒ In Colorado (like most states) annual applications for LIHTC exceed the amount of available credits. ⇒ Increased competition for limited tax credits and the larger subsidies needed as costs increase limits production.	• Development cost and market factors
No dedicated regional source of gap funding	Gap funding is usually critical to make affordable housing feasible, after debt and equity (tax credit) sources are secured. Gathering sources for gap funding from state, local, or philanthropic sources takes effort and time that can delay or kill a project. ⇒ Some local communities have started their own funding programs to support affordable housing development, but this plays out in varied and inconsistent ways across the region. ⇒ Current gap funding providers often prefer to be the last source added to a project, but having a source of funding that can be guaranteed earlier in the process can help secure other funding more quickly.	• Political will and collective action
Existing programs favor larger projects	The state's largest funding sources are competitive and the scoring criteria favors larger-scale projects with experienced developers and operators of affordable housing. ⇒ Small communities where affordable projects might have fewer units are at a disadvantage. ⇒ Supportive service providers or community-based organizations who want to expand into affordable housing face barriers to entry due to experience and limited pool of regional development partners.	

Lack of resources for affordable ownership	The bulk of federal and state resources are directed toward rental housing to meet the significant need for affordable housing for very low-income households. ⇒ Other approaches to developing affordable, stable housing such as deed-restricted for-sale homes or shared equity ownership connected to a community land trust, have fewer funding sources.	
State lending landscape	Colorado has few Community Development Financial Institutions (CDFIs) that specialize in lending to affordable housing and other innovative projects that meet local needs. ⇒ CDFIs offer financing and technical assistance better aligned with the needs of affordable housing development compared to commercial banks.	• Development cost and market factors
Lack of viable incentive programs	Local incentive programs are not always able to achieve increased affordable housing production. ⇒ In many communities, zoning, or financial incentives such as density bonuses or impact fee waivers are not calibrated to local market conditions to make affordable and middle-income housing production feasible.	• Land use and zoning • Development and market factors • Political will and collective action
Lack of funding streams to operate supportive housing models long-term	Housing that offers support services for seniors or those transitioning out of homelessness face long-term operating challenges related to rising costs and lack of funding resources to maintain supportive and specialty services. ⇒ Operational challenges strain the capacity of affordable housing developers to take on new projects. ⇒ Without ongoing funding for operations, this housing is at risk of being lost to closure or eventual repositioning as market-rate housing.	• Development costs and market factors

More expensive financing reduces both affordable and market-rate housing development. A significant challenge for affordable housing is the limited pool of resources—especially financing other than loans—available to meet the scale of need. In this situation, gap funding can play a crucial role in producing new homes. Some jurisdictions have created local revenue sources to help support affordable housing, but not all communities have taken this step and they vary in their capacity to generate local funds, leading to uneven distribution of housing that is needed throughout the region.

Political will and collective action

Beyond official rules, processes, and market factors, political will and collective action play crucial roles in shaping the local and regional housing landscape. Political will, or the commitment of key stakeholders and elected officials, is essential for enacting policies and allocating resources that support housing development. A lack of political will can derail even well-intended efforts to meet housing needs. Similarly, collective action by community members and advocacy groups can either push housing initiatives forward or oppose development due to concerns related to growth and change.

Barrier	Results on the ground	Relates to
Local resistance to new housing and diverse housing types	Many projects encounter local opposition to development proposals, especially for housing that is affordable to households with lower incomes. ⇒ Discretionary (and contentious) review processes that extend the development timeline are financially damaging to new projects also affected by other barriers. ⇒ Opposition campaigns and drawn-out review processes can further tax the capacity of local planning staff, especially in smaller jurisdictions. ⇒ Lack of support from local government staff and elected officials can also prevent needed housing from being built.	• Land use and zoning • Development cost and market factors
Lack of local data to understand need	There is no consistent approach to calculating housing need in Colorado and many communities lack the technical or financial capacity to undertake this analysis on their own. ⇒ Limited and infrequent grant opportunities for Housing Needs Assessments to do the necessary technical work. ⇒ Varied approaches make it difficult to compare across jurisdictions or even compare across time and monitor progress toward meeting needs.	
State tax policy	Colorado's Taxpayer Bill of Rights (TABOR) inhibits the ability of government revenue to keep pace with a growing and changing population, and requires voter approval for all tax increases. ⇒ The political appetite for tax increases varies by jurisdiction and has different implications for households based on the local tax base. ⇒ TABOR also limits the ability for jurisdictions to have emergency reserve funds in excess of 3 percent of annual budgets, which makes it difficult for local governments to fund programs—including housing production—consistently during economic downturns.	• Development cost and market factors • Funding and financing

The Denver region lacks a shared understanding of housing need—both in terms of scale and the types of housing needed to provide affordable and attainable housing across the entire income spectrum. Coordination across communities and among development partners, service providers, and other stakeholders to build a common base of knowledge is an important step toward building greater consensus and political will to address regional housing needs. This kind of collective action is critical for the region to achieve Metro Vision outcomes for livable, inclusive, connected, and sustainable communities.

Building a strategy framework

Land use and zoning, availability of infrastructure, funding and finance, development costs and market factors, and the political will and collective action of communities all individually and collectively play significant roles in shaping the housing landscape across the Denver region. For market-rate housing, the interplay between zoning restrictions, market demand, and development costs seems to be the most critical, while affordable housing projects are more heavily influenced by political will and the availability of funding. How these barriers show up and interreact within the region's different housing markets will ultimately shape development outcomes.

Understanding how these barriers affect experiences and outcomes for various actors in the housing development process is crucial for developing effective strategies to increase overall housing production. Another suite of strategies will be needed to preserve existing housing and promote housing stability in order to make real progress toward closing the overall gaps between supply and demand. A comprehensive regional housing strategy will help foster a more robust and resilient housing development ecosystem that can better weather shifts in the economic environment to meet the needs of the region's residents.