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COLORADO'S HOUSING CROSSROADS:

PROP 123, STATE INVESTMENTS, MARKET CHALLENGES, AND THE ROAD AHEAD

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ABOUT COMMON SENSE INSTITUTE

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INTRODUCTION

During the COVID-19 pandemic, Colorado's housing costs surged, transforming housing affordability into a pressing kitchen table issue.

In response, the state, primarily through one-time federal funding from the American Rescue Plan Act, ramped up its investment in affordable housing to unprecedented levels. **Reflecting the severity of the crisis and its determination to address it, the Division of Housing (DOH) increased its budget by an astounding 675%—from $43.4 million in FY21 to $336.5 million in FY23—enabling the creation of more than 10,000 affordable units over a 3-year window.**[i] Proposition 123, passed by voters in 2022, builds on this spending, allocating $173.5 million in FY24 toward the development and preservation of over 8,000 housing units statewide in just its first year.

Yet, despite these investments, Colorado's housing market is flashing red flag warnings. Declining market-rate housing starts, and a sharp reduction in construction job openings nationally signal storm clouds on the horizon. The state risks slipping back into the "lost decade" of 2008–2019 when housing starts stagnated at a paltry average of 25,682 annually—the very period that ignited Colorado's affordability crisis.[ii] While state investments included in Proposition 123 have helped keep subsidized housing production afloat, it cannot go it alone. The gap left by declining market-rate developments places an unsustainable burden on affordable housing programs, threatening the long-term viability of housing affordability.

At the same time, new challenges are bubbling to the surface. Rising per-unit costs and cost disparities between urban and rural areas demand urgent attention. Local governments attempting to embrace zoning reform to increase their zoned capacity face fierce resistance from entrenched single-family homeowners, and the rollout of the mandated 90-day fast-track approval process remains sluggish with only five local jurisdictions approving, or in the final stages of approving fast track policies despite DOLA offering assistance for localities during the process. These delays are more than just bureaucratic speed bumps—they are roadblocks that add costs, stall projects, and undermine the impact of Colorado's investments.[iii]

Colorado's housing crisis requires not only a government approach but an all-of-community effort, blending subsidized housing with robust market-rate home building. A coordinated strategy that accelerates approvals, cuts red tape, and unlocks both public and private housing production is essential to address the state's growing needs.

This report dives into the details of Colorado's recent housing investments and emerging market challenges. By examining cost trends, geographic disparities, and policy performance, it offers actionable insights for policymakers and stakeholders to ensure Colorado's housing strategy delivers homes its citizens can afford.

KEY FINDINGS

HOUSING STARTS DECLINE, THREATENING AFFORDABILITY

- A slowdown in market-rate housing starts and reduced construction job openings signals mounting pressure on subsidized housing to fill the gap. New unit permitting has declined in Colorado from 60,000 in 2021 to just 32,000 units in 2024 and national job openings in construction have declined from 454,000 in November 2023 to just 276,000 a year later. Without a balanced pipeline of both market-rate and subsidized developments, Colorado risks undermining its affordability goals.

RISING COSTS POSE THREATS TO THE STATE'S EFFORTS

- Costs per unit funded by the Division of Housing increased from $15,263 in FY21 to $47,921 in FY23—a 214% increase, reflecting inflation, costlier unit types, and varying project efficiencies. The average state contribution from Proposition 123 funds, conversely, is $17,936 per unit. Future analysis will be critical to understanding whether this lower cost per unit represents a sustainable trend or unique first-year circumstances.

STATE & FEDERAL SPENDING DRIVING AFFORDABLE HOME PRODUCTION

- The Division of Housing's funding expansion between FY21 and FY23, a $293.1 million and 675% increase (from $43.4 million to $336.5 million) fueled by federal COVID-19 relief funds, enabled the creation of 10,227 affordable units. Proposition 123 contributed an additional 8,049 units in FY24 with $173.5 million in funding.
  - Proposition 123 promised to finance the construction and preservation of 170,000 units over 20 years; the projects funded in FY24 commit a total of 8,049 units, which falls short of the 8,500 required to keep pace with 123's promise.

PROP 123 IMPLEMENTATION BARRIERS STALL AFFORDABLE HOUSING PROGRESS

- Constituent resistance to zoning reforms and a slow pace of local governments opting into the Prop 123 90-day fast-track approval process is stalling progress. Currently five local jurisdictions have, or are in the process of, adopting fast-track approval processes. These delays increase costs and jeopardize the impact of Colorado's historic housing investments, underscoring the need for streamlined policies and stronger community support.

DIVISION OF HOUSING FUNDING BREAKDOWN

In 2021, Governor Polis enacted into law HB21-1028, requiring the Department of Local Affairs (DOLA) to create the Annual Public Report on Funding of Affordable Housing Preservation and Production for 2021 and every year thereafter.[iv] These annual reports detail the Division of Housing's (within DOLA) fiscal year awards for grantees and borrowers working to create additional affordable housing in Colorado. At the time of analysis, CSI reviewed all publicly available DOLA Affordable Housing annual reports that concluded in FY2022–23. Since that time, DOLA has published the FY2023–24 annual.[v]

The funds are categorized by intention and include, but are not limited to new construction, acquisition, rehabilitation, down payment assistance, and capital improvements.

Figure 1 shows the DOH's annual awards to just "new construction" over the three reported years. Between FY21 & FY23, a total of $356.4 million was spent on new construction projects, resulting in 10,227 total new affordable units being created.

Between FY21 & FY23, total funds awarded by the DOH grew from $43.4 million to $336.5 million, a growth of 675%. Additionally, the total amount of funding used on just "new construction" projects grew from $26.7 million to $245.7 million, an increase of 820%. A large but unknown portion of this funding came from COVID-19–era federal allocations that will deplete in coming years.

FIGURE 1

New Construction Funding Awarded by the Department of Housing FY21-23			
	FY20-21	FY21-22	FY22-23
DOH Funds Spent on New Construction Only	$26,710,880	$84,031,401	$245,690,762
Number of Affordable Units Newly Created	1,750	3,350	5,127
DOH Funds per Unit Created	$15,263	$25,084	$47,921
Total Funds Awarded by DOH	$43,385,486	$244,857,470	$336,456,854
New Construction Funds as a Share of Total DOH Funds Awarded	61.6%	34.3%	73.0%

Source: DOH Annual Reports

DOLA received substantial grants from the federal government during COVID-19 that were earmarked for use in the realm of housing and thus partially appropriated to the DOH. Some of these federal funds were moved into cash funds containing state dollars, thus "mixing" the funding source. Figure 2 shows the breakdown of DOH's annual awarded totals by funding source.

Federal funds were highest in FY22 but remained elevated in FY23 as the state continued to spend federal COVID stimulus.

For this report, CSI examined funding on behalf of Colorado's Division of Housing and Proposition 123 and their impact on affordable housing in the state. Colorado's Housing and Finance Authority (CHFA) administers Prop. 123 funding on behalf of Colorado's Office of Economic Development and International Trade (OEDIT) in addition to allocating funds to other affordable housing projects that are not included in this report.

Figure 3 depicts the various funding origins from which the DOH awarded and granted funds in FY 2022–23. These sources are a mixture of state and federal funds.

Total amounts awarded by DOH over the last three fiscal years are shown in Figure 4 along with administrative spend totals as reported by the DOH in their annual reporting. It is important to note that these administrative totals reflect the total associated with awarding these grants but may not include other structural administrative costs expended by DOH.

FIGURE 2

Breakdown of DOH Awarded Funding by Source

	FY20-21	FY21-22	FY22-23
State	$16,647,800	$107,314,619	$169,897,533
Federal	$23,177,686	$118,877,851	$75,984,754
Mix	$3,560,000	$18,665,000	$90,574,567
Total	$43,385,486	$244,857,470	$336,456,854

Source: DOH Annual Reports

FIGURE 3

Division of Housing FY2022–23 Funding Sources

Funding Source*	Funding Amount
Housing Development Grant	$148,189,267
HB22-1304	$75,969,898
SB22-160	$28,750,000
HB21-1329	$22,668,000
HB22-1377	$21,708,266
Housing Trust Fund	$14,550,000
SB21-242	$11,729,669
HOME Investment Partnership Program	$8,135,354
Community Development Block Grants, HDG	$2,875,000
CDBG	$1,881,400

*Funding source definitions can be found in the appendix

FIGURE 4

Division of Housing Annual Awarded and Administrative Totals

	FY20-21	FY21-22	FY22-23
Total Awarded by DOH to Grantees & Borrowers	$43,385,486	$244,857,470	$336,456,854
Amount Expended on Admin. Costs	$2,943,739	$2,391,053	$4,302,525

PROPOSITION 123

Proposition 123, passed by voters in 2022, has sparked an extraordinary response from local governments across Colorado.[vi] The affordable housing funds created by this initiative, which do not contribute to any of the awards discussed earlier in this report, represent a fresh infusion of resources across the Colorado housing landscape. In its first full fiscal year (FY24), the program awarded $173.5 million across six distinct initiatives, with $144.4 million dedicated to building or preserving affordable housing and $29.1 million allocated to essential supports like down-payment assistance, homelessness services, and local program administration. Three of the six programs in Prop. 123 (homeownership, homelessness, and local planning capacity) are administered by DOLA while the land banking, concessionary debt, and equity programs are administered by OEDIT and CHFA.

These funds are projected to benefit an estimated 48,487 households, highlighting the program's impact across the state. To date, three local jurisdictions, Golden, Montrose, and Silverton, have adopted the Proposition 123 90-day fast-track approval process while Eagle and Grand Junction are in final stages of approval.

As of November 1, 2024, **210 local governments—representing 87.7% of the state's population—have filed commitments to increase affordable housing under Proposition 123.**[vii] The program's appeal is undeniable, with jurisdictions from the Front Range to rural and resort counties eager to secure funding. Yet, regional disparities in land costs, labor availability, and housing production capacity mean the outcomes will vary widely. Urban counties have received most of the funding to date, but most of Colorado's population and demand originates from urban areas. With demand for Proposition 123 funding far exceeding the available resources, the probability of individual jurisdictions receiving awards will only tighten in the years ahead.

FIGURE 5

FY24 Funding from Proposition 123 Programs

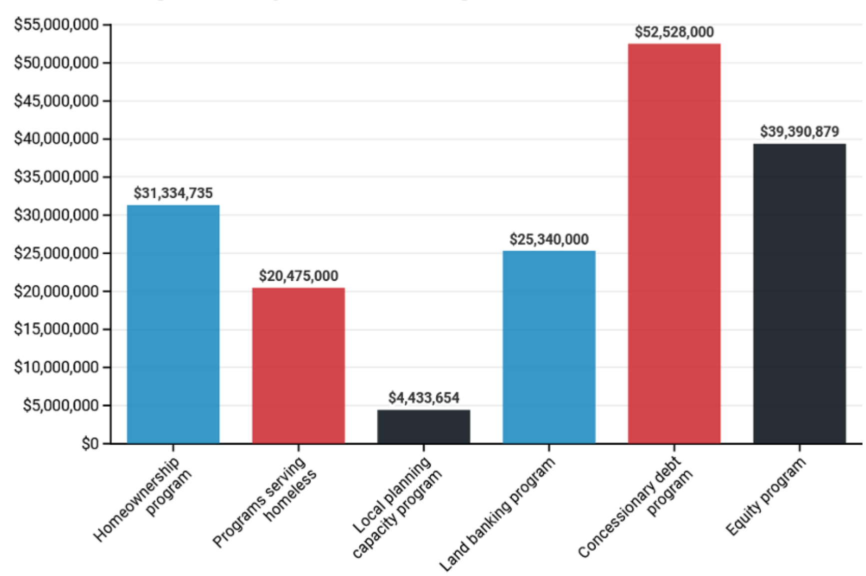
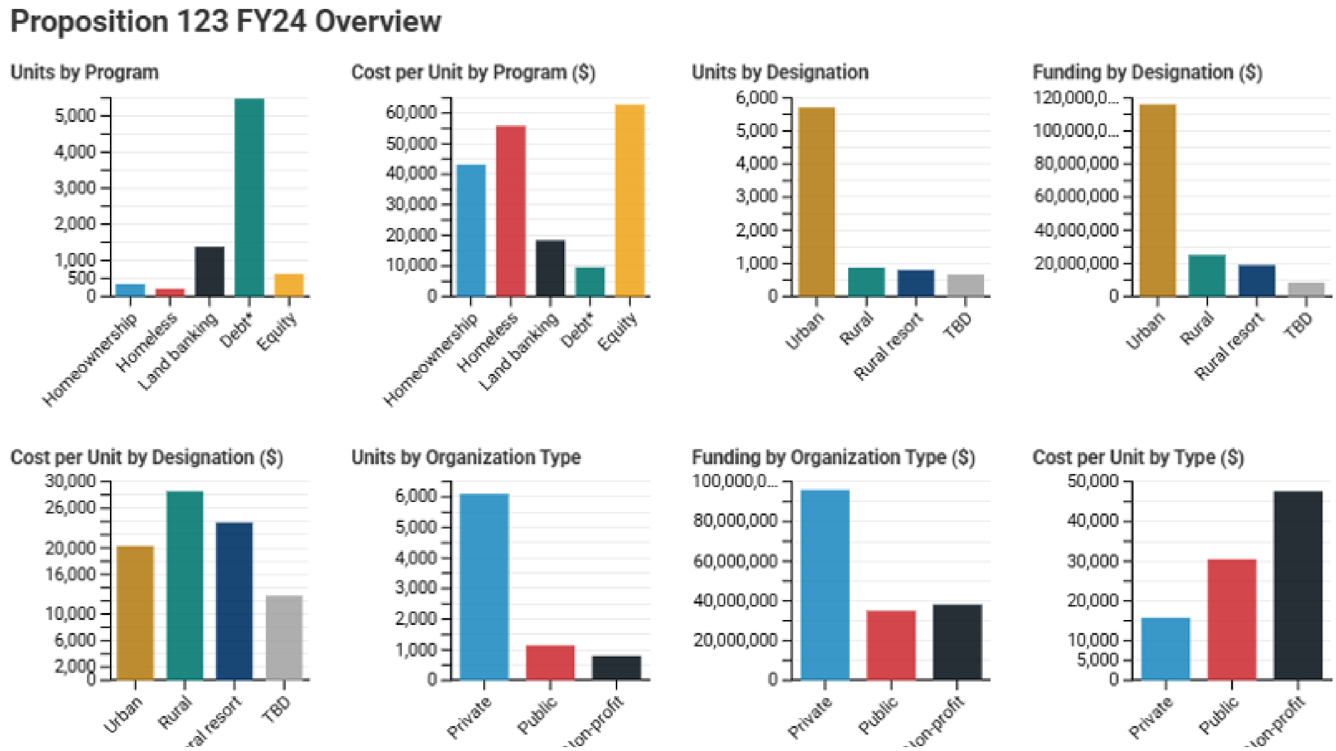


FIGURE 6



Proposition 123 promised to finance the construction and preservation of 170,000 units through 20 years; the projects funded in FY24 commit a total of 8,049 units, which is just short of the 8,500 required to keep pace with 123's promise. The state will contribute an average of $17,936 to each unit while the public, private, and non-profit organizations who receive funding shoulder the rest of the expenses. Private developers will receive a small majority of FY24 funding and 72% of the money will serve projects in urban counties.

As anticipated, the majority of the funding will reach urban areas, as rural and resort counties face unique challenges, like high costs of land, labor, and commodities, that suppress home starts despite high need. In conversations with the state, the DOH noted they would be willing to fund up to $70,000 per unit to address the diverse costs of housing projects across Colorado, particularly in rural areas. Private developers appear to be using the state funding most effectively, but deeper analysis is warranted to ascertain what is driving the cost per unit type variance. Some programs are producing vastly more units per dollar of funding than others, but these are either oriented towards construction of new units rather than preservation, like the equity program, or costlier unit types, like the homelessness program.

The Land Banking Program under Proposition 123 gives local governments, tribal governments, and nonprofits the ability to secure land for future affordable housing development, ensuring that rising land costs won't kill a project's feasibility before it can get started. The program provides grants and forgivable loans with a deferred 2% interest rate. Loans are forgiven if key development milestones are met, while grants must be repaid if they're not, outcomes we'll be sure to track in the years to come.

In its first year, the program drew overwhelming demand, receiving 113 Letters of Intent (LOIs) totaling more than $255.8 million in funding requests. After compliance reviews, only 26 applicants, representing $46.9 million, were invited to apply. Of those, 21 applications were submitted requesting $38.8 million, and 16 applicants were ultimately awarded $25 million in January 2024. These funds are expected to support the acquisition and banking of land for 1,380 future housing units, locking in opportunities for affordable development before land costs spiral further out of reach.

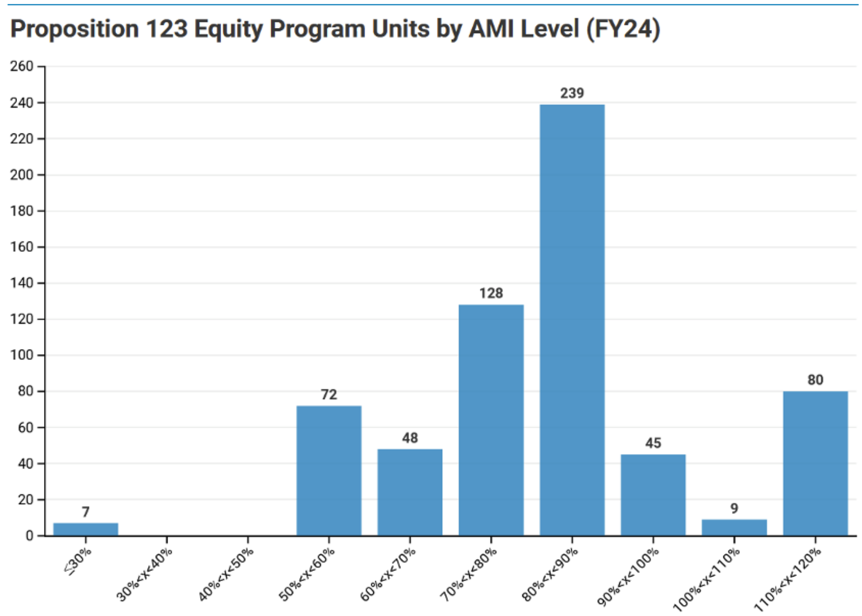
The Concessionary Debt Program under Proposition 123 is a financial lifeline for affordable housing projects, **offering loans at below-market interest rates (1.5% to 2.5%) to help developers tackle cost barriers. These rates are far lower than typical market loans, such as HUD's 221(d)(4) multifamily loans, which range from 5.27% to 7.25%.**[viii] This makes the program highly desirable and delivers significant value to affordable home builders.

The Equity Loan Program under Proposition 123 provides below–market-rate equity investments to eligible for-profit and nonprofit entities for the construction or preservation of low- and middle-income multifamily rental developments. In FY24, the program funded 628 estimated units distributed across a range of area median income (AMI) levels. Designed to invest in projects serving residents with an AMI of 90% across all investments. Based on the awarded units, the program achieved a weighted average AMI of **87.15%**, aligning closely with its intended target.

An estimated 61% of the units created by the equity program will serve residents with an AMI of 90% or less, closely in line with the program's initial goal and a positive demonstration of the program's ability to produce affordable housing in its first year.

Figure 7 depicts the breakdown of units by AMI category:

FIGURE 7



RED FLAG WARNINGS: CURRENT MARKET CONDITIONS SIGNAL GRAVE THREATS TO AFFORDABILITY AHEAD

Colorado's housing market is flashing warning signs of challenges to come. Declining market-rate housing starts and a reduction in construction job openings nationally, which mirrors local job market conditions, point to a slowdown in production that could exacerbate the state's affordability crisis. The above chart underscores the urgency, warning of a potential return to the lost decade of 2008–2019, when Colorado averaged just 25,000 housing starts per year—the period that ignited the state's affordability challenges.

Programs like Proposition 123 have stepped in to sustain affordable housing starts, but they cannot shoulder the full burden of housing production. The sharp decline in construction job openings signals an impending slowdown in market-rate starts, placing an unsustainable burden on subsidized housing to fill the gap in the years ahead. Without a robust pipeline of market-rate developments to balance supply, the affordability gains achieved through subsidized housing risk being short-lived. Affordable housing cannot solve the crisis alone; Colorado's housing market demands a balanced, coordinated effort to address the looming threats to affordability.

FIGURE 8

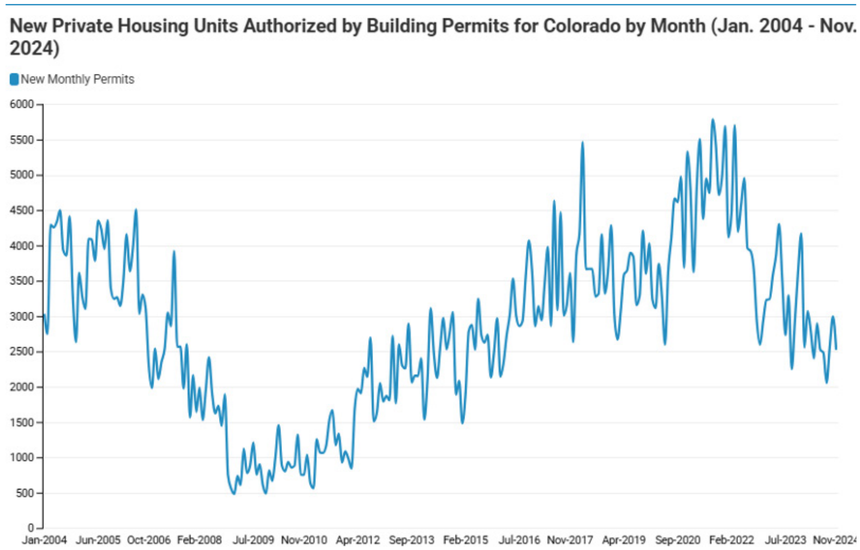
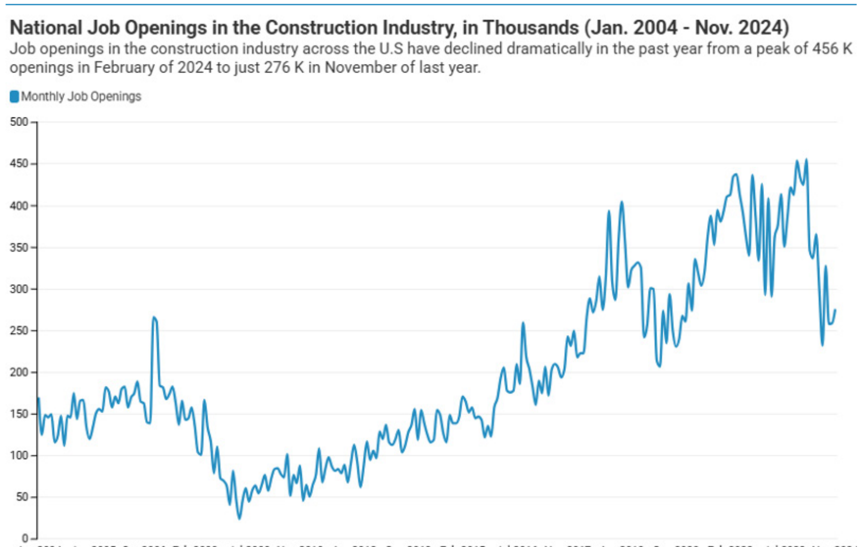


FIGURE 9



GOING FORWARD

Colorado's historic investments in affordable housing, through the Division of Housing's budget expansion and Proposition 123's ambitious funding, have created an opportunity to address the housing crisis at scale. These investments are giving home builders financial tools to navigate a challenging market. But investment alone won't solve the problem—policy reforms and implementation must rise to meet the moment.

For affordable housing to succeed, however, local governments must prioritize faster approvals, embrace infill development, and cut the red tape that stalls progress. Many municipalities are already taking critical steps by pursuing upzoning initiatives that allow for more housing per lot, a proven strategy for stabilizing housing costs.[ix] These efforts deserve recognition, as they demonstrate leadership in addressing the root causes of the crisis. However, these initiatives often face fierce opposition from single-family homeowners who resist changes to traditional zoning.[x] This tension remains a significant obstacle to progress, and it is shortsighted to dismiss it as NIMBYism. This resistance is deeply culturally entrenched, tied to long-held beliefs about neighborhood identity and land use, making it imperative for policymakers to have the support they need to navigate these challenges. Simply put, elected officials cannot—and should not—be expected to tackle this alone.

In addition to upzoning, the implementation of the 90-day fast-track approval process mandated by Proposition 123 is essential. Every delay in the approval process increases costs, strains budgets, and risks derailing otherwise viable projects. Local governments that move quickly to adopt streamlined approval processes will gain a significant edge, attracting development and addressing housing needs more efficiently. The urgency is clear: waiting until the 2027 deadline will only exacerbate the challenges.

To encourage early adoption, the state should introduce targeted incentives for municipalities that implement fast-track approvals ahead of schedule. Additional rewards for regional collaboration through intergovernmental agreements could amplify these efforts, addressing shared housing challenges and unlocking more scalable solutions. These strategies can help close financial gaps and provide the support developers need to bring projects to fruition.

Finally, it's critical to acknowledge that public spending through affordable housing cannot shoulder this burden alone. A thriving housing market requires both market-rate and subsidized housing to meet demand. Without a robust pipeline of market-rate starts, subsidized housing will remain overburdened and overprescribed, risking long-term viability. Colorado's housing crisis is complex, and solving it demands a coordinated, multi-pronged approach that relies primarily on the private sector.

APPENDIX

Programs:

Housing Development Grant (HDG):

- A Colorado program that provides funding to local governments, housing authorities, and nonprofits to support affordable housing development and preservation projects, as well as emergency housing needs.

Housing Trust Fund:

- A federal program that allocates funding to states to create and preserve affordable rental housing for extremely low-income families, often used in conjunction with other housing initiatives.

HOME Investment Partnerships Program (HOME):

- A federal block grant program that helps states and local governments fund affordable housing initiatives, including construction, rehabilitation, and direct rental assistance for low-income families.

Community Development Block Grant (CDBG):

- A federal program providing flexible funding to states and municipalities for community development activities, including housing, infrastructure, and economic development.

Bills:

HB22-1304 (State Grant Program for Affordable Housing):

- Established a streamlined framework for funding affordable housing development and preservation projects, emphasizing partnerships with local governments and aligning funding sources for maximum impact.

SB22-160 (Revolving Loan Fund for Affordable Housing):

- Established a revolving loan and grant program to provide assistance and financing to mobile home owners seeking to organize and purchase their mobile home parks.

HB21-1329 (American Rescue Plan Act of 2021 Allocations for Housing):

- Directed federal ARPA funds to affordable housing development and homelessness prevention, prioritizing projects that could rapidly expand housing availability.

HB22-1377 (Grant Program for Local Governments to Address Homelessness):

- Established a grant program to help local governments implement innovative approaches to reduce homelessness, such as building shelters, supportive housing, and other resources.

SB21-242 (Expansion of HDG Fund):

- Allows the division of housing within the department of local affairs to use the housing development grant fund for rental assistance, tenancy support service programs, and awarding grants and loans for the rental, acquisition, or renovation of underutilized hotels, underutilized motels, and other underutilized properties to provide non congregate sheltering or affordable housing for people experiencing homelessness. The act expands those who are eligible to benefit from rental assistance and tenancy support programs to include individuals experiencing homelessness.

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ix. Family-Friendly Vibrant Neighborhoods

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