

## On the Up and Up: Colorado's Rising Rental Problem

Ted Opp, Luke Petach, and Stephan Weiler

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- Rental prices in Colorado are unusually high in terms of their share of renters' income.
- Accelerating rents in metropolitan areas of Colorado are a driving force behind the widening rental price gap between the US and Colorado.
- Colorado potentially faces a constrained entrepreneurial environment due to these rising rent burdens.

Rental prices in any given city or county are often cited as one of the many factors in determining the economic health and accessibility of that area across households' socio-economic situations. High rents can strain budgets and pose significant barriers to households' geographic location decisions. These obstacles are more pronounced for younger and lower-income individuals. Rents and rental price growth can have a significant impact on economic growth and stability when analyzed in conjunction with geographic divergences in income and business opportunity. In short, rents matter. Colorado is a particularly intriguing area to explore such effects as the state has had steady but widely dispersed rent increases, amidst remarkably high and rising incomes alongside entrepreneurial success, as detailed in previous [REDI Reports](#) and earlier [Colorado Innovation Reports](#).

Local analyses of rents can have broad implications for both regional and the statewide economies. Challenges arise in areas with a higher rent-to-income ratios, as individuals who pay a higher proportion of rent to their income consume less goods and must be cautious when approaching risky endeavors – such as starting their own businesses. A young, innovative, but lower-income individual facing high rental costs is less likely to start a business due to the increased risk associated with forgoing a steady job in the face of high living costs. These challenges could have serious impacts on the promising trend of business opportunity and entrepreneurship in Colorado, a linkage which will be further elaborated in upcoming REDI Reports.

Median Share of Rent in Monthly Income, Renter Households, 2016

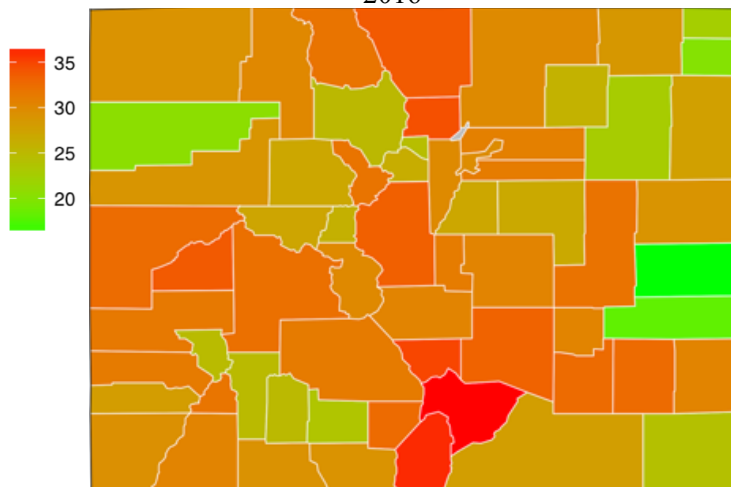


Figure 1

To illustrate this point, the percent of monthly median rent absorbed as a share of monthly median income for rentals in Colorado is mapped in Figure 1. The data is sourced from the 5-year American Community Survey income estimates for 2016. It is important also to note that while there are wide differences in rental burdens, the counties which look similar can have different underlying causes for their higher rent burdens. Northern Front Range areas such as Boulder and Larimer counties have relatively high average rents and higher incomes than the rest of the state. Meanwhile southern Colorado's

Huerfano and Costilla Counties have low renters' income, thus paying a high proportion of their income even in the midst of generally lower rental costs.

The national rental price boom, reflecting in part a strong housing price recovery since the Great Recession, varies substantially, with coastal cities being the most affected – for example, the San Francisco Bay Area and the District of Columbia. In 2018, the ten states where rents were least affordable were located along either the Atlantic or Pacific; inland Colorado ranked 11th. Thus, the national trend is close to home for many Coloradoans, especially in Colorado's predominant metropolitan areas primarily anchored along the Front Range. Figure 2 plots the dramatic increase in median rent in for a two-bedroom unit in the US versus Colorado, then for Colorado urban metropolitan areas versus the state's rural nonmetropolitan areas. Metro areas are most expensive, and feature the most dramatic increase in median rental prices, further widening the gap with the US as well as with rural Colorado.

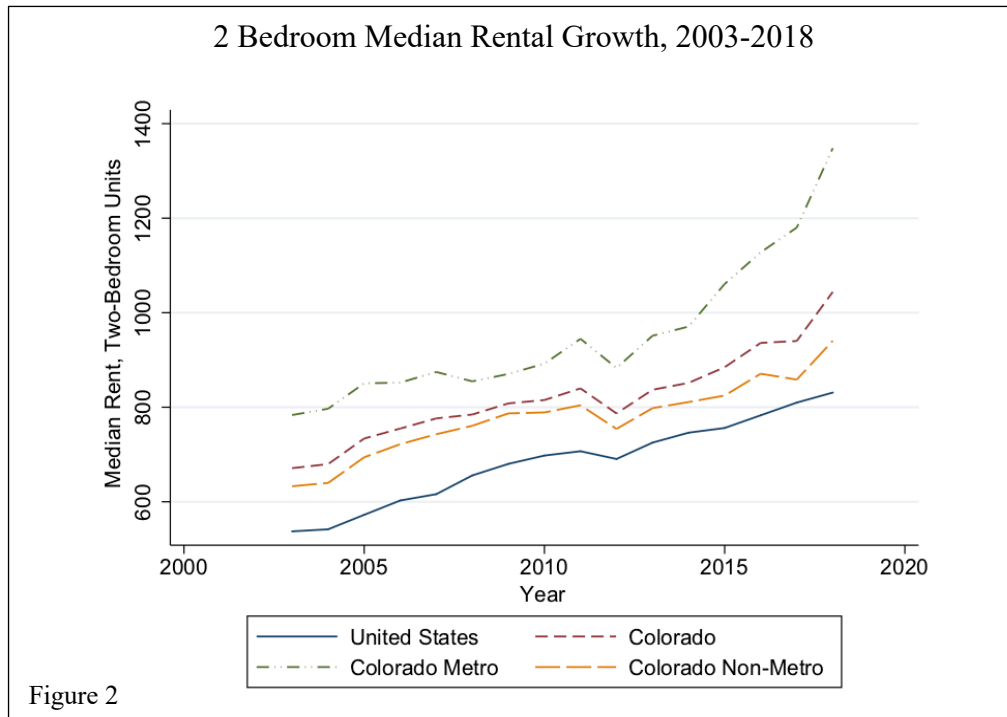


Figure 2

Previous [REDI Reports](#) have emphasized that Colorado is a highly entrepreneurial state, which helps it continually rank among the states with the highest employment growth. Young establishments create nearly two thirds of net new jobs and are responsible for virtually all worker productivity growth as they channel the most recent innovations into the marketplace. Yet Colorado's accelerating trend in rising rents directly threaten that economically competitive edge over similar states cited in earlier [Colorado Innovation Reports](#). Rising rents – along with increasing related housing prices as well as rapidly congesting transportation corridors – may start pushing away younger and lower-income potential entrepreneurs. Such strong upward trends in living costs coupled with roadway and other infrastructural constraints could reversing Colorado's competitive advantage in innovative business startups from a lack of housing affordability and associated longer and more difficult commuting options.