

**BRIGHTON PROPOSITION 123
BASELINE AFFORDABLE HOUSING ESTIMATE**

Memorandum Report

To

CITY OF BRIGHTON

From

GRUEN GRUEN + ASSOCIATES

Urban Economists, Market Strategists & Land Use/Public Policy Analysts

July 2023

C1639

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE



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GRUEN GRUEN + ASSOCIATES
MEMORANDUM REPORT

Date: July 20, 2023
To: Mike Tylka, City of Brighton
From: Gruen Gruen + Associates
Subject: **C1639 Brighton Proposition 123 Baseline Estimate**
cc: Debra Bristol, Anneli Berube, Brighton Housing Authority

INTRODUCTION

Proposition 123 was approved by Colorado voters in November of 2022, resulting in a new Statewide Affordable Housing Fund that is expected to distribute about \$300 million annually to assist affordable housing developments and other related programs throughout Colorado. To be eligible to receive Proposition 123 funds, a local government is required to “opt in” to the program and commit to **increase the supply of affordable housing in their community by nine percent (9%) over the next three years.** The affordable housing commitments must be filed with the Colorado Department of Local Affairs (“DOLA”) on or before November 1, 2023.

Prior to filing a commitment, the first step is to determine an affordable housing baseline estimate for the city of Brighton that can be substantiated, implemented, and periodically updated (i.e., once every three-year cycle). This memorandum presents an affordable housing baseline estimate for Brighton and provides documentation of the data sources and methodologies used to prepare the baseline estimate.

PROPOSITION 123 AFFORDABLE HOUSING DEFINITIONS

The final text of Proposition 123 and further guidance from DOLA indicate that “affordable housing” is defined as:

- **Rental housing** affordable to a household with an annual income of **60 percent of Area Median Income (“60% AMI”)** or lower, with a contract rent (excluding utilities or other expenses) that costs the household less than 30 percent of its monthly income; or
- **For-sale housing** that could be purchased by a household with an annual income of **100 percent of Area Median Income (“100% AMI”)** or lower and for which the mortgage payment costs the household less than 30 percent of its monthly income.

Local governments can petition DOLA to utilize an Area Median Income from an adjacent jurisdiction, or to use the Statewide Median Income, if the application of the affordable housing definitions at local income levels are inconsistent with affordable housing or workforce housing needs

in the community. However, jurisdictions that use a different income limit (than the income limit for the county in which the local jurisdiction is located) must use this same income limit in the future for purposes of demonstrating compliance with Proposition 123.¹

BASELINE ESTIMATE SUMMARY

The affordable housing baseline estimate described in this memorandum is summarized in Table 1.

Table 1: Summary of Affordable Housing Baseline Estimate and 3-Year Commitment

	City of Brighton
	# Units
Affordable Rental Housing Inventory	1,357
Affordable and Available For-Sale Housing Inventory ¹	135
Affordable Housing Baseline Estimate	1,492
Annual Commitment (3%)	45
3-Year Cycle Commitment (9%)	135
¹ The affordable for-sale housing inventory is estimated at 1,354 units. An availability rate equal to 10% (over the three-year cycle) is applied to this figure.	
Sources: U.S. Census Bureau, 2017-2021 American Community Survey; Gruen Gruen + Associates.	

The total affordable housing baseline is estimated at 1,492 units. This includes 1,357 affordable rental units and 135 affordable for-sale units that may become available during the three-year commitment cycle.

If the affordable housing baseline estimate is accepted by DOLA, this means the city of Brighton will commit to increase its affordable housing supply by 135 units over the next three years in order to qualify for program funding benefits.

¹ Brighton could likely justify the use of Weld County income limits (which are lower than Adams County income limits). However, only housing units permitted or built in the three-year cycle which are affordable under Weld County income limits would be counted for compliance on or before December 31, 2026.

AFFORDABLE HOUSING BASELINE ASSUMPTIONS

AREA MEDIAN INCOME (AMI) LIMIT SELECTION

Table 2 summarizes the existing distribution of Brighton households by household size and housing tenure according to 2017-2021 American Community Survey estimates. This data is used to select a household size for renter and homeowner income limits (which vary by household size) to use to evaluate housing costs as a share of income.

Table 2: City of Brighton Households by Size and Housing Tenure

	Owner Occupied Housing Units		Renter Occupied Housing Units	
	#	%	#	%
1-person household	1,533	17.2	1,379	34.2
2-person household	2,858	32.0	835	20.7
3-person household	1,331	14.9	776	19.2
4-person household	1,838	20.6	625	15.5
5-or-more person household	1,378	15.5	420	10.4
Total	8,938	100.0	4,035	100.0
Sources: U.S. Census Bureau, 2017-2021 American Community Survey 5-year estimates, Table B25009; Gruen Gruen + Associates.				

An estimated 49.2 percent of owner-occupied housing units in the city of Brighton are occupied by single-person or two-person households. An additional 14.9 percent of owner-occupied housing units are occupied by three-person households. Collectively, households with three or fewer persons occupy about 64 percent of the owner-occupied housing unit inventory. **The annual income limit applied to the for-sale housing stock reflects a household size of 3.0 persons.**

More than one-third (34.2 percent) of all renter-occupied housing units in the city of Brighton are occupied by single-person households. An additional 20.7 percent of renter-occupied units are occupied by two-person households. Collectively, households with two or fewer persons occupy about 55 percent of the renter-occupied housing unit inventory. **The annual income limit applied to the rental housing stock reflects a household size of 2.0 persons.**

Table 3 summarizes the income limits selected to calculate the baseline amount of affordable housing in the city of Brighton.

Table 3: Area Median Income Limits for Baseline Estimate

	Rental Housing	For-Sale Housing
	60% AMI	100% AMI
Year	2022	2022
Geographic Area	Adams County, CO	Adams County, CO
Household Size	2-person	3-person
Annual Income Limit	\$56,280	\$105,500
Sources: Colorado Housing Finance Authority, 2022 Income Limit and Maximum Rent Tables; Gruen Gruen + Associates.		

The affordable housing baseline estimate is calculated using **2022 income limits for Adams County**. The annual income limit for a two-person household at 60% AMI was \$56,280 in 2022. The annual income limit for a three-person household at 100% AMI was \$105,500 in 2022.

AFFORDABLE HOUSING PRICES

Table 4 summarizes the maximum monthly affordable housing payments at the selected income limits.

Table 4: Maximum Affordable Monthly Housing Payments

	Rental Housing	For-Sale Housing
	60% AMI	100% AMI
2022 Income Limit	\$56,280	\$105,500
Maximum Housing Cost Burden	30.0% of income	30.0% of income
Affordable Monthly Payment¹	\$1,407.00 (contract rent)	\$2,637.50 (mortgage)
¹ Guidance published by DOLA indicates specifically that utility payments of any kind and expenses related to HOA/association fees are to be excluded from affordable monthly housing payments.		
Source: Gruen Gruen + Associates		

At the 60% AMI income level for a two-person household, the maximum monthly contract rent was \$1,407 in 2022. This amount excludes any utility payments or other rental expenses.

At the 100% AMI income level for a three-person household, the maximum monthly mortgage payment was \$2,637.50 in 2022. This maximum monthly payment includes only mortgage principal and interest, insurance, and tax expenses.

Assumptions employed to convert the maximum monthly mortgage payment into an affordable purchase price estimate include:

- **Down payment equal to six percent (6%) of purchase price:** this was the median down payment among first lien mortgages originated for home purchases in 2022 within Brighton census tracts. (Source: Home Mortgage Disclosure Act data, 2022, <https://ffiec.cfpb.gov/>);
- **30-year fixed mortgage with 5.35% annual interest rate:** this was the average interest rate in 2022 for 30-year mortgages according to the Primary Mortgage Market Survey. (Source: Freddie Mac, Primary Mortgage Market Survey®, <https://www.freddiemac.com/pmms/>);
- **Annual mortgage insurance premium equal to 80 basis points (0.80% of loan):** this was the annual premium for FHA insured loans in 2022 with a loan-to-value ratio of 90-95%;
- **Annual homeowner insurance premium of \$2,452:** representing the average HO-3 policy premium among the 10 least expensive insurers for the Brighton 80601 zip code area, as of July 2022 survey data. (Source: Colorado Division of Insurance, Homeowners Insurance Premiums Report, July 2022 data, http://www.dora.state.co.us/pls/real/Ins_Survey_Reports.Report_Selection_Criteria?p_report_id=HOME&p_label=); and
- **Annual property taxes equal to 0.92% of purchase price:** according to Adams County Assessor data, the average mill levy among residential property accounts in the city of Brighton was 131.70 mills, which combined with the 2022 residential assessment rate of 6.95% suggests an annual tax burden equal to 0.92% of property value.

Table 5 summarizes the resulting estimate of the affordable housing purchase price with a maximum monthly payment of \$2,637.50.

Table 5: Maximum Affordable For-Sale Housing Purchase Price

	For-Sale Housing 100% AMI
Purchase and Loan Amount:	
Maximum Affordable Purchase Price	\$366,307
Down Payment (6%)	(\$21,978)
Mortgage Loan Amount	\$344,329
Monthly Payment:	
Principal and Interest	\$1,922.78
Mortgage Insurance Premium	\$229.55
Homeowner Insurance Premium	\$204.33
Property Tax	\$280.84
Monthly Total	\$2,637.50
Sources: Home Mortgage Disclosure Act; Freddie Mac; Colorado Division of Insurance; Adams County Assessor; Gruen Gruen + Associates	

The maximum **affordable purchase price is estimated at \$366,307**. Approximately 73 percent of the maximum monthly mortgage payment (\$1,923) would be associated with principal and interest payments. An additional \$230 per month or about nine percent of the monthly payment would be attributable to mortgage insurance premiums. Monthly homeowner insurance is estimated at \$204 or about eight percent of the monthly payment. Monthly property tax is estimated at \$280 or about 11 percent of the monthly payment.

INFLATION ADJUSTMENTS

According to DOLA, “localities that choose to determine a baseline amount of affordable housing that is as recent as possible should estimate the increases in home prices and rental rates since 2019, which is roughly when the underlying American Community Survey data was collected.”²

Table 6 summarizes several indicators of housing price escalation in the Brighton area between 2019 and 2022.

Table 6: Rent and Housing Price Inflation Assumptions

	2019	2022	Increase
	#	#	%
Monthly Rent Inflation:			
Zillow Observed Rent Index (Brighton, CO, annual average index values)	\$1,648	\$1,983	20.3%
Median Monthly Apartment Rent ¹ (Commerce City/Brighton market area, second quarter of each year)	\$1,413	\$1,678	18.8%
For-Sale Price Inflation:			
FHFA All-Transactions House Price Index (Adams County, CO, annual index levels)	202.74	277.48	36.9%
Median Single-Family Home Sales Price ² (Brighton, CO, annual figures)	\$397,000	\$560,500	41.2%
Median Townhouse/Condo Sales Price ² (Brighton, CO, annual figures)	\$270,500	\$385,000	42.2%
¹ Apartment Association of Metro Denver quarterly vacancy and rent surveys are the source data.			
² Denver Metro Association of Realtors (DMAR) city and county market trend reports are the source data.			
Sources: Zillow; Federal Housing Finance Agency; Apartment Association of Metro Denver; Denver Metro Association of Realtors; Gruen Gruen + Associates			

Annual average rental values in the Zillow Observed Rent Index for the city of Brighton increased from \$1,648 in 2019 to \$1,983 in 2022. This \$335 monthly increase equates to a 20.3 percent increase in typical monthly rents. According to vacancy and rent surveys published by the Apartment Association of Metro Denver, the median monthly apartment rent in the Commerce City/Brighton market area increased by 18.8 percent between the second quarter of 2019 and 2022. For purposes of estimating the supply of affordable rental units in Brighton, a **20 percent inflation factor (6.3 percent/year) is applied** to adjust the most recent American Community Survey data into 2022 dollars.

² <https://engagedola.org/prop-123/widgets/61766/faqs#10693>

The Federal Housing Finance Agency’s “All-Transactions House Price Index” for Adams County increased by 36.9 percent from 2019 through 2022. According to City and County Market Trend reports published monthly by the Denver Metro Association of Realtors, the median sales prices in the city of Brighton for single-family homes and townhouses/condos increased by 41.2 percent and 42.2 percent, respectively, over the 2019 to 2022 period. To estimate the supply of affordable for-sale housing units in Brighton, a **40 percent inflation factor (11.9 percent/year) is applied.**

FOR-SALE HOUSING AVAILABILITY RATE

According to DOLA, for-sale housing units that may be affordable in value, but unavailable for purchase during the three-year commitment period, can be excluded from the affordable housing baseline estimate.³ Based on American Community Survey data for the city of Brighton, it is assumed that **10 percent of for-sale housing units will turnover** or be “available” within the commitment period.

The 2017-2021 American Community Survey provides data on moves into owner-occupied housing stock. Estimates of owner-occupied housing by year householder moved into the unit (Table B25038) indicate that approximately 9.7 percent of homeowners in the city of Brighton moved into their home from 2019 to 2021.

³ <https://engagedola.org/prop-123/widgets/61766/faqs#10689>

CITY OF BRIGHTON AFFORDABLE HOUSING BASELINE ESTIMATE

According to DOLA, “all commitments to increase affordable housing and the baseline amount of affordable housing must be determined by referencing [the] American Community Survey 5-Year Estimates for 2017-2021 or Comprehensive Housing Affordability Strategy Estimates for 2015-2019.”

This section utilizes the 2017-2021 American Community Survey reference data for the city of Brighton and applies the previously documented assumptions (income limits, inflation adjustments, etc.) to estimate the affordable housing baseline.

AFFORDABLE RENTAL HOUSING INVENTORY

Table 7 summarizes the estimated affordable rental housing inventory, as of 2022, in the city of Brighton. The reference data is Table B25056 from the 2017-2021 American Community Survey (“Contract Rent”).

Table 7: Estimated Affordable Rental Housing in City of Brighton

Monthly Contract Rent ¹ Inflated to \$2022	All Renter Occupied Housing Units with Cash Rent		Renter Occupied Housing Units Priced Below \$1,407 Monthly	
	#	%	#	%
Below \$900	429	11.0	429	31.6
\$900 to \$1,079	382	9.8	382	28.2
\$1,080 to \$1,199	210	5.4	210	15.5
\$1,200 to \$1,499	485	12.4	336 ²	24.8
\$1,500 to \$1,799	1,237	31.6	0	0.0
\$1,800 to \$2,399	788	20.1	0	0.0
\$2,400 and Above	383	9.8	0	0.0
Total	3,914	100.0	1,357	100.0
¹ Monthly contract rents inflated by 20%.				
² Estimate within the price bracket assumes a normal/even distribution.				
Sources: U.S. Census Bureau, 2017-2021 American Community Survey 5-year estimates, Table B25056; Gruen Gruen + Associates.				

The city of Brighton is estimated to contain 1,021 renter occupied units priced below \$1,200 in monthly contract rent. All of these units are affordable to a two-person household at the 60% AMI income level. An additional 336 renter occupied units priced between \$1,200 and \$1,407 in monthly contract rent are estimated as affordable to a two-person household at the 60% AMI income level. This assumes a normal distribution of units within the \$1,200 to \$1,499 monthly rent bracket.

In total, the city of Brighton is estimated to include **1,357 rental units that are priced below \$1,407 in monthly contract rent.**

AFFORDABLE FOR-SALE HOUSING INVENTORY

Table 8 summarizes the estimated affordable for-sale housing inventory, as of 2022, in the city of Brighton. The reference data is Table B25075 from the 2017-2021 American Community Survey (“Value”).

Table 8: Estimated Affordable For-Sale Housing in City of Brighton

Home Value, Inflated to \$2022 ¹	All Owner Occupied Housing Units by Value		Owner Occupied Housing Units Priced Below \$366,307	
	#	%	#	%
Below \$175,000	403	4.5	403	29.8
\$175,000 to \$279,999	144	1.6	144	10.6
\$280,000 to \$349,999	444	5.0	444	32.8
\$350,000 to \$419,999	1,558	17.4	363²	26.8
\$420,000 to \$559,999	2,900	32.4	0	0.0
\$560,000 to \$699,999	2,198	24.6	0	0.0
\$700,000 and Above	1,291	14.4	0	0.0
Total	8,938	100.0	1,354	100.0
¹ Home values inflated by 40%.				
² Estimate within the price bracket assumes a normal/even distribution.				
Sources: U.S. Census Bureau, 2017-2021 American Community Survey 5-year estimates, Table B25075; Gruen Gruen + Associates.				

The city of Brighton is estimated to contain 991 owner occupied units valued below \$350,000. All of these units would be affordable for a three-person household at the 100% AMI income level to purchase. An additional 363 owner occupied units valued between \$350,000 and \$366,300 are estimated as affordable to a three-person household at the 100% AMI level to purchase. This assumes a normal distribution of units within the \$350,000 to \$419,999 price bracket.

In total, the city of Brighton is estimated to include **1,354 owner occupied homes that are valued below \$366,307.**

AFFORDABLE HOUSING BASELINE ESTIMATE

Table 9 presents the total (rental and for-sale housing) affordable housing baseline estimate for the city of Brighton.

Table 9: City of Brighton Affordable Housing Baseline Estimate

	Rental ≤ 60% AMI	For-Sale ≤ 100% AMI	Total
Affordable Housing Inventory	1,357	1,354	2,711
3-Year Availability Rate	NA	10%	
Affordable Housing Baseline Estimate	1,357	135	1,492
<i>Sources: U.S. Census Bureau, 2017-2021 American Community Survey; Gruen Gruen + Associates.</i>			

The affordable housing baseline is estimated at 1,492 units. This includes 1,357 affordable rental units and 135 affordable for-sale units that may become available during the three-year commitment cycle.