

# Housing Feasibility Study

Lake County, Colorado



Prepared by Better City, LLC  
June 28, 2016

## TABLE OF CONTENTS

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<b>EXECUTIVE SUMMARY</b> .....	<b>3</b>
KEY FINDINGS .....	3
RECOMMENDED NEW DEVELOPMENT .....	3
<b>HOUSING PROFILE</b> .....	<b>4</b>
HOUSING OVERVIEW .....	4
TENURE BY HOUSING TYPE .....	4
HOME VALUES .....	6
HOME SALES .....	8
<b>PROPOSED PROJECT</b> .....	<b>12</b>
HOUSING STUDY CONCLUSION .....	12
TOWNHOME PROJECT SUMMARY .....	13

## TABLE OF FIGURES

---

<b>FIGURE 1: HOUSING INVENTORY BY TYPE</b> .....	<b>5</b>
<b>FIGURE 2: HOUSING INVENTORY - CONSOLIDATED</b> .....	<b>5</b>
<b>FIGURE 3: MEDIAN HOME VALUES</b> .....	<b>6</b>
<b>FIGURE 4: HOMES SALES BY VALUE</b> .....	<b>6</b>
<b>FIGURE 5: HOUSING INVENTORY BY VALUE RANGE</b> .....	<b>7</b>
<b>FIGURE 6: RATIO OF HOMES TO HOUSEHOLD PURCHASING POWER</b> .....	<b>7</b>
<b>FIGURE 7: HOME SALES AND PRICES</b> .....	<b>8</b>
<b>FIGURE 8: HOME BUILDING PERMITS IN LAKE COUNTY</b> .....	<b>9</b>
<b>FIGURE 9: LIST PRICE PER BEDROOM</b> .....	<b>9</b>
<b>FIGURE 10: LIST PRICE PER SQUARE FOOT</b> .....	<b>10</b>

## TABLE OF TABLES

---

<b>TABLE 1: HOUSING DATA</b> .....	<b>4</b>
<b>TABLE 2: RENTS COMPARED TO HOME VALUES</b> .....	<b>4</b>
<b>TABLE 3: HOMES FOR SALE DETAILS</b> .....	<b>10</b>

## EXECUTIVE SUMMARY

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The purpose of this housing study is to assess current housing market conditions in the Lake County, with particular emphasis on the City of Leadville, identify market imbalances, and determine opportunities to address those imbalances.

### KEY FINDINGS

1. The share of renters in Lake County is higher compared to the rest of the state and Chaffee County. Also, rental rates in relation to the price of homes is much higher in Lake County than in comparison markets. Many households who are now renting are paying as much or more for rent than they would for a mortgage.
2. Attached single-family homes are much less common in Lake County than the rest of the state even though their lower cost of construction would make that type of home a cost-effective solution for the market.
3. Households in Lake County spend less on housing as a percentage of income than the rest of the state. Based on income, 26% of all households are living in homes under \$150,000 but could afford a more expensive home.
4. The quality of housing stock in Lake County is poor. The median age of housing is 53 years old, which is 18 years older than the median Colorado home.
5. Construction and remodeling costs are higher in Lake County than the rest of the state.
6. There is insufficient new construction to keep pace with demand. It is very challenging for home builders to build entry-level homes because construction costs are so high. The vast majority of new homes that are being built are custom homes at the higher end of the market.

This report is broken up into four sections. 1) a broad overview of the housing market in Lake County, 2) housing by configuration, 3) home values, 4) home sales. At the conclusion of the study is a recommendation for a housing project to help address housing market imbalances in the market.

### RECOMMENDED NEW DEVELOPMENT

A new 86-unit townhome development is recommended that will provide higher quality, affordable housing to the marketplace. The townhome project would allow for a developer to take advantage of construction economies of scale to achieve affordable price points for end consumers. At a sales price between \$175,000 and \$225,000 per unit, the project would cater directly to a market segment that is largely stuck renting or in less desirable housing.

The project would include enclosed garages, small fenced yards, and large common area green space. Units would contain a mix of 2 and 3 bedrooms and 2 bathrooms. For more detailed information on the proposed development, including a proposed site layout, see the last section of this report.

## HOUSING PROFILE

The Lake County housing market will be compared to Chaffee County, as it shares the closest demographic similarities with Lake County, as well as the State of Colorado.

### HOUSING OVERVIEW

According to the Census, Lake County has 4,461 housing units, of which approximately 30% are vacant/not continuously occupied, (see **Table 1**) many of these are second homes. Of the 3,106 occupied housing units in Lake County, 60% are owner-occupied and 40% are renter-occupied. The rate of home ownership in Lake County is slightly lower than the state average but significantly behind Chaffee County. A possible explanation for the disproportionate number of renters is that Hispanic households make up 40% of total households in Lake County and there is evidence that they do not participate in the home buying market at the same rate as non-Hispanic households. The impact of Hispanic households on the housing market will be explored later.

Housing Profile	Colorado	Chaffee Co.	Lake Co.
Total Housing Units	2,238,624	10,170	4,461
Occupied Units	1,998,314	7,735	3,106
Owner Occupied (%)	64.8%	75.7%	60.4%
Owner Occupied	1,295,048	5,855	1,875
Renter Occupied (%)	35.2%	24.3%	39.6%
Renter Occupied	703,266	1,880	1,231
Median Home Value	\$239,400	\$265,700	\$168,800
Median Rent	\$969	\$817	\$917
Median Home Age	35	35	53

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Table 1: Housing Data**

The ratio of rental rates to median home values is also comparably high in Lake County. The \$969 average rental rate in Denver is roughly equivalent to a mortgage payment for a \$180,000 home which is only 75% of the median home value (See **Table 2**). Similarly, the median rent of \$817 in Chaffee County is the equivalent of a mortgage payment for a \$155,000 home which is just over half of the median home price in that county. In Lake County, however, the median rent of \$917 would buy a home that is 4% more than the median home value. In other words, the median renter in Lake County could apply her rental payment to a mortgage and have a home that has higher value than more than half of the homes in the County.

	Colorado	Chaffee County	Lake County
Median Home Value	\$ 239,400	\$ 265,700	\$ 168,800
Home Value of Median Rent	\$ 180,000	\$ 155,000	\$ 175,000
<b>Ratio</b>	<b>0.75</b>	<b>0.58</b>	<b>1.04</b>

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Table 2: Rents Compared to Home Values**

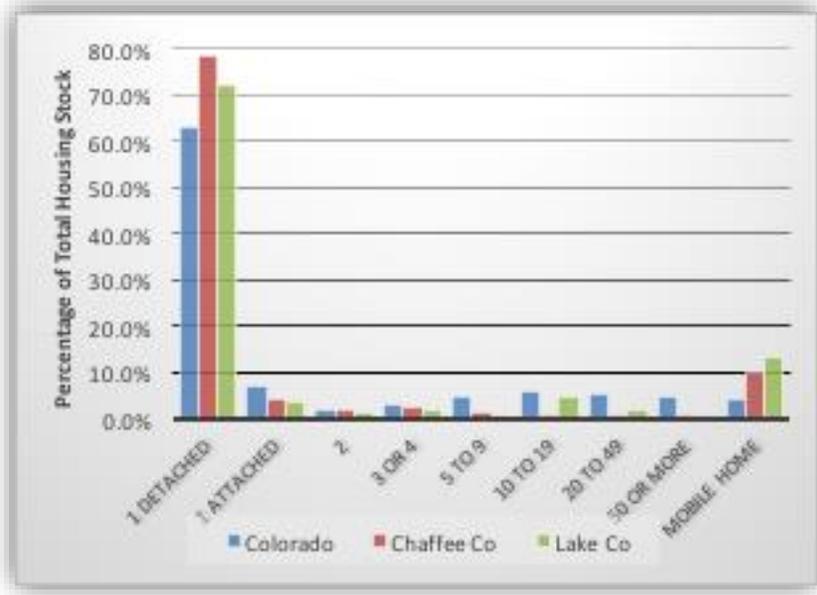
The over-consumption of rental housing compared to home ownership is indicative of consumers who may be uneducated in the virtues of home ownership, prefer renting, or cannot find housing of suitable desirability to purchase.

The median home age in Lake County is 53 years compared to 35 years for the state and Chaffee County. Homes are generally old and outdated—aesthetically, mechanically, and structurally—which proves to be a strong deterrent to homeownership in the market.

### TENURE BY HOUSING TYPE

Of the 3,106 occupied housing units in Lake County, more than 72% are detached single family homes, 14% are multifamily units (includ-

ing semi-attached and duplexes), and 13.5% are mobile homes. Housing units by type are shown in **Figure 1** below.



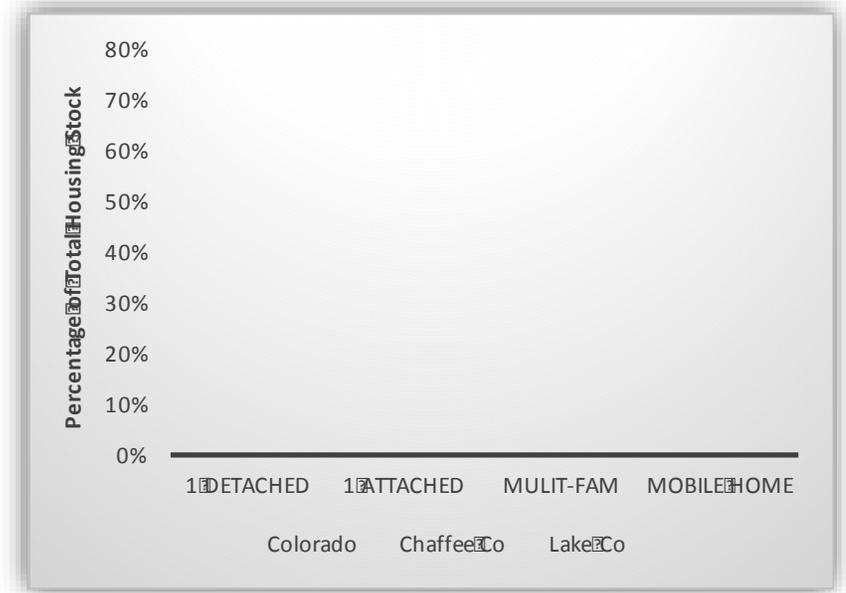
Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Figure 1: Housing Inventory by Type**

Lake County has many more single-family housing units than the state but slightly less than Chaffee County. Lake County also has disproportionate mobile home housing stock. While the data doesn't break down home ownership by race, the anecdotal evidence suggests that many of the residents of the two largest mobile home parks in Lake County are Hispanic.

Multi-family configurations are consolidated in *Figure 2*. From this chart it is evident that Lake County has half as many attached single-family homes as the rest of the state. The underrepresentation of detached housing in Lake County is a surprising outcome because

due to its remoteness from suppliers of building materials construction costs are significantly higher in the County than the rest of the state so the cost savings of attached home construction would be more affordable. Furthermore, of the 45 homes currently for sale or pending in the County 18 have .1 acres of lot or less (see *Figure 2*). Many of the detached homes, especially those built before 1900, have virtually no yard and are functionally equivalent to an attached home but without the cost benefits.

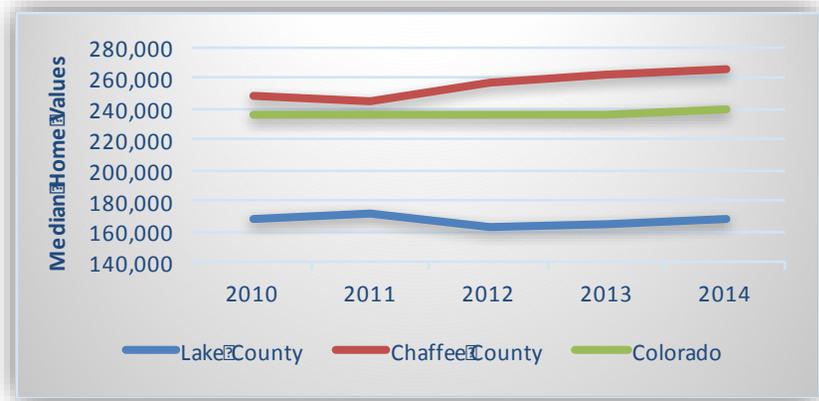


Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Figure 2: Housing Inventory - Consolidated**

## HOME VALUES

The changes in median home values over the five years from 2010 to 2014 (the last year for which the Census Bureau has data) are depicted in *Figure 3*.



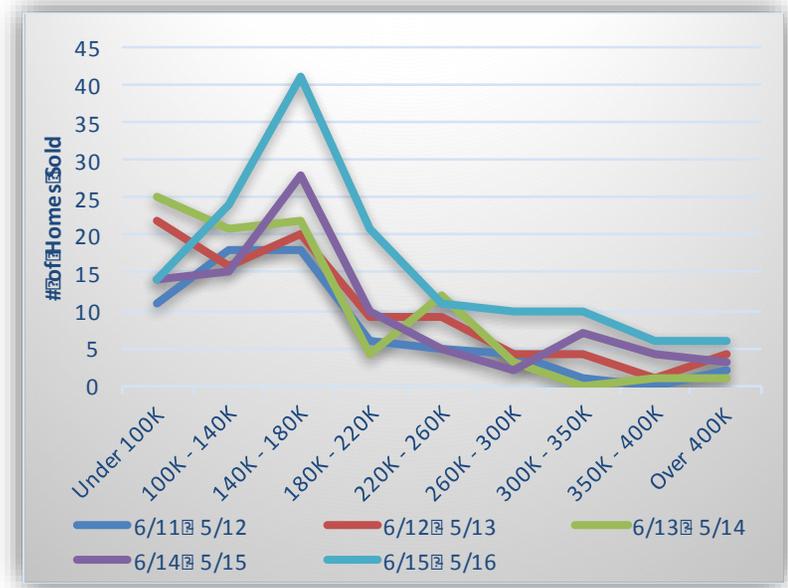
Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Figure 3: Median Home Values**

Chaffee County saw home values appreciate by 7% during those five years and the state’s median value increased by almost \$3,000. Lake County homes, by comparison, increased only \$600.

The number of homes sold in each price range is illustrated in *Figure 4*. This graph provides some insight to the stagnation in median home values. Though sales volumes have increased over time – especially in the last twelve months – there has been no discernible shift in the mix of the value of the homes being sold. More than half of the homes sold in the last twelve months (70%) were sold for less than \$180,000. The quality and age of much of the housing stock in Lake County precludes it from appreciating in value. The weight of

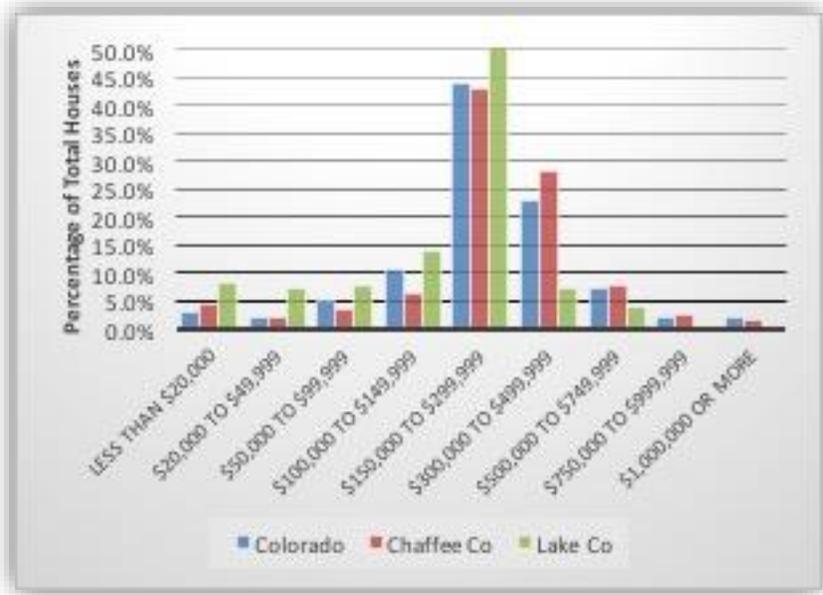
this large mass of lower-quality housing inventory pulls down the median values and precludes increases in that metric.



Source: Realtors of Central Colorado MLS

**Figure 4: Home Sales by Value**

The values of homes across the different value ranges is shown in *Figure 5*. A disproportionate number of homes in Lake County are under \$150,000 when compared to both Chaffee County and the state. The most pronounced gap, however, is in the \$300,000 to \$500,000 range where only 7% of Lake County homes have this valuation versus 28% in Chaffee County and nearly 23% in the state.

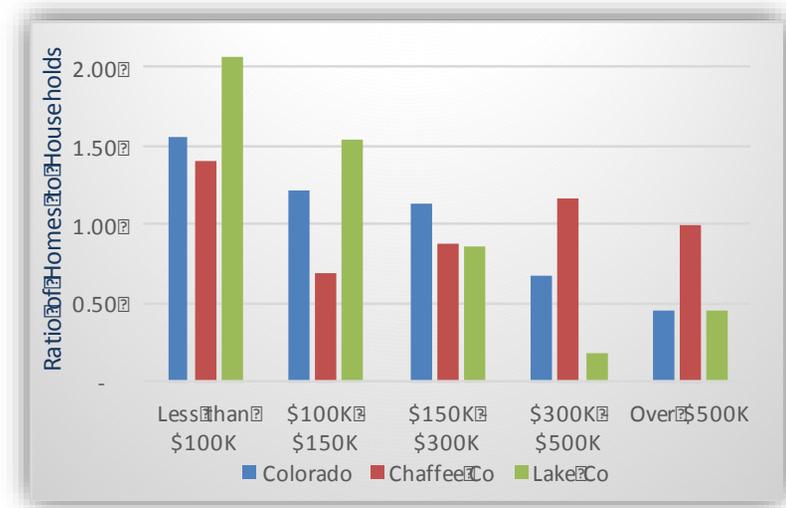


Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

**Figure 5: Housing Inventory by Value Range**

Because home values are inextricably tied to incomes, the most important consideration is the relationship between home valuations and median incomes. In *Figure 6* the number of homes in each value range is compared to the households whose income would qualify for homes in that range. Incomes were multiplied by 28% to determine the maximum affordable mortgage for each income level and that mortgage was entered into a mortgage calculator to determine the corresponding home price. For the purposes of this analysis, it is assumed that households purchase the highest valued housing they can afford. Rentals were converted to a home valuation using the assumption that a rental payment of \$900 is equivalent to a mortgage rate of \$900 and is therefore equivalent to a home value of \$175,000.

A ratio of one (1) means that there are the same number of households with incomes that would qualify for homes that they could afford. A ratio above one (1) indicates that there are more homes available in that price range than there are households with corresponding income. By contrast, a ratio below one (1) indicates a shortage of homes compared to the number of households who could afford homes in that price range. Because total homes and households are nearly evenly matched in every market, the overall ratio across values is almost exactly one.



Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates, [www.mortgagecalculator.org](http://www.mortgagecalculator.org)

**Figure 6: Ratio of Homes to Household Purchasing Power**

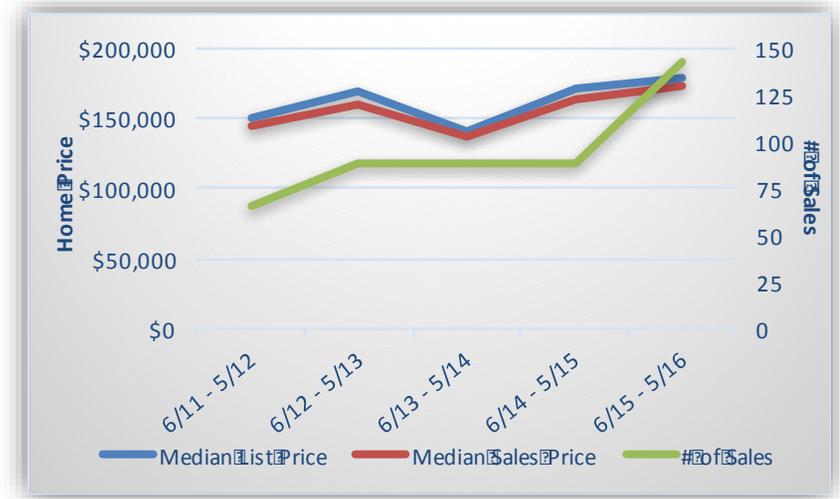
The most salient finding from the analysis is the degree to which there is over-consumption of homes that are less than \$150,000 in Lake County. 26% of Lake County households are living in homes under \$150,000 in value and whose income would qualify them for a more expensive home.

This analysis does not take into account the wealth effect or the accumulation of home equity that enables households to buy homes that exceed what they would qualify for based on income alone. Lake County is under-consuming housing far more than state averages and Chaffee County. This represents an opportunity for home builders because there is significant latent financial capacity for households to upgrade their housing.

As noted above, the non-participation of Hispanics in the home-buying market is a prominent driver of the overall under-consumption of housing because the median annual income of Hispanic households is more than \$50,000, which is more than \$4,000 higher than the County average. However, the anecdotal evidence suggests they tend to live in rented housing – particularly mobile homes. Introducing more Hispanic households into the home buying market would provide significant demand for new housing.

### HOME SALES

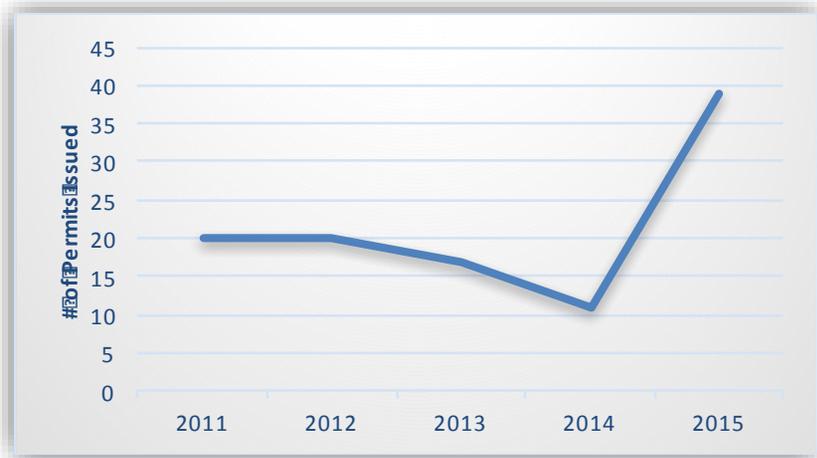
The sales prices of homes in Lake County over the past five years is depicted in *Figure 7*. The median sales price has increased by nearly 20% since 2011 while number of sales has more than doubled. From discussions with real estate professionals, it is evident that the robust housing market is driven primarily by consumers purchasing second homes and people moving in to the area. The upgrade market remains tepid.



Source: Realtors of Central Colorado MLS

**Figure 7: Home Sales and Prices**

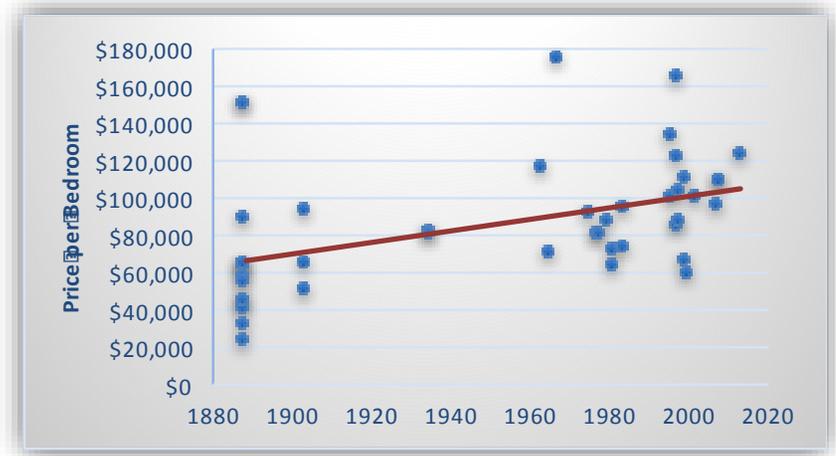
The home building market has been weak for years and is still producing new homes at a rate that is probably barely sufficient to keep pace with the obsolescence of so much of the housing stock that was built before 1900. (See *Figure 8*) There was a sharp increase in 2015, but the County has issued only two building permits so far in 2016.



Source: Lake County Building and Land Use

**Figure 8: Home Building Permits in Lake County**

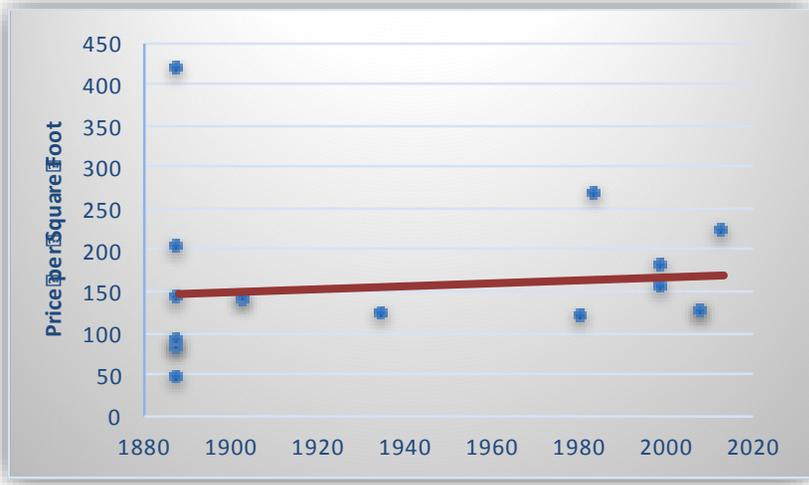
Two metrics that provide some background about what drives pricing in the market are depicted in *Figure 9* and *Figure 10*. The price per bedroom seems to increase at a steep rate as homes get newer but this effect is driven largely by the low valuations of the homes built before the turn of the century. If these data points are excluded, the price per bedroom is relatively flat. The relatively small age impact is reinforced in *Figure 10* where the price per square foot shows very little appreciation for newer homes.



Source: Realtors of Central Colorado MLS & Zillow

**Figure 9: List Price per Bedroom**

That there is such a small premium placed on newer homes is a surprising outcome and may be explained by the fact that there is such limited inventory of homes that a home of any age is going to be in demand.



Source: Realtors of Central Colorado MLS & Zillow

**Figure 10: List Price per Square Foot**

The details of the homes that are currently for sale or have sales pending is provided in *Table 3*.

Yr Built	Sq Feet	BR	Acres	List Price	PPSF	DOM	Price per BR
1965		1	-	\$ 69,900		81	\$ 69,900
1888	1008	2	0.1	\$ 79,900	\$ 79.27	71	\$ 39,950
1888	1155	3	0.1	\$ 94,500	\$ 81.82	1	\$ 31,500
1903	715	2	-	\$ 99,000	\$ 138.46	192	\$ 49,500
1903	923	2	-	\$ 130,000	\$ 140.85	1381	\$ 65,000
1888	3150	6	0.2	\$ 139,900	\$ 44.41	39	\$ 23,317
1888	360	1	0.1	\$ 150,000	\$ 416.67	117	\$ 150,000
1888	750	1	0.1	\$ 150,000	\$ 200.00	117	\$ 150,000
1888		3	0.1	\$ 174,000		15	\$ 58,000
1998		2	-	\$ 174,500		31	\$ 87,250
1888		2	0.2	\$ 179,000		16	\$ 89,500
1888		4	0.1	\$ 179,000		5	\$ 44,750
1984	712	2	2.8	\$ 189,000	\$ 265.45	31	\$ 94,500
1981		3	0.3	\$ 189,000		120	\$ 63,300
1999	1295	3	-	\$ 199,000	\$ 153.67	16	\$ 66,333
1888		4	0.1	\$ 217,000		62	\$ 54,250
1984		3	2.7	\$ 219,000		26	\$ 73,000
2000		4	0.7	\$ 232,500		217	\$ 58,125
1977		3	1.0	\$ 239,000		32	\$ 79,667
1978		3	0.2	\$ 239,900		171	\$ 79,967
1935		3	0.2	\$ 245,000		15	\$ 81,667
1888		4	0.3	\$ 250,000		30	\$ 62,500
1903		3	-	\$ 279,000		81	\$ 93,000
1996		3	0.6	\$ 300,000		1519	\$ 100,000
1998		3	0.6	\$ 309,000		11	\$ 103,000
1967		2	0.5	\$ 349,000		127	\$ 174,500
1963		3	-	\$ 349,500		30	\$ 116,500
1980		4	1.3	\$ 350,000		3	\$ 87,500
1997		3	2.8	\$ 364,500		532	\$ 121,500
1975		4	0.8	\$ 365,000		40	\$ 91,250
2007		4	0.7	\$ 385,000		557	\$ 96,250
1996		3	0.6	\$ 399,000		23	\$ 133,000
1997		5	0.7	\$ 419,000		13	\$ 83,800
1996		5	2.9	\$ 419,000		38	\$ 83,800
1997		3	3.7	\$ 495,000		6	\$ 165,000
2002		5	1.0	\$ 499,000		85	\$ 99,800
1888		8	0.2	\$ 499,900		14	\$ 62,488
<b>Pending</b>							
1935	1314	2	0.2	\$ 160,000	\$ 121.77	39	\$ 80,000
1888	2002	4	0.1	\$ 179,000	\$ 89.41	6	\$ 44,750
1888	1379	3	0.1	\$ 192,000	\$ 139.23	6	\$ 64,000
2008	1780	2	0.1	\$ 219,000	\$ 123.03	114	\$ 109,500
2008	1780	2	0.1	\$ 219,000	\$ 123.03	114	\$ 109,500
1981	2464	4	0.6	\$ 289,000	\$ 117.29	88	\$ 72,250
1999	1824	3	0.2	\$ 329,000	\$ 180.37	96	\$ 109,667
2013	1684	3	0.2	\$ 369,900	\$ 219.66	39	\$ 123,300
<b>Median</b>							
1977	1314	3	0.22	\$ 232,500	\$ 138.46	39	\$ 83,800

Source: Realtors of Central Colorado MLS & Zillow

**Table 3: Homes for Sale Details**

## Demand Drivers

There are three primary drivers of demand for new homes in Lake County:

1. Upgrades
2. New Move-ins
3. 2<sup>nd</sup> Home Buyers

### Upgrades

70% of sales over the past 12 months were for homes valued under \$220,000. 55% were for homes valued under \$180,000. With a total of only 43 homes sold over the last 12 months that had valuations in excess of \$220,000, the number of potential upgrade purchases is very small.

The upgrade market represents the great potential for upside in Lake County. Many of the 40% of the households that are currently renting have the income to purchase a home. With a 10% down payment, a household with income of just \$40,000 could qualify for a \$185,000 townhouse. 61% of Lake County households make at least \$40,000. 38% of home owners live in homes that are valued at less than \$150,000 so assuming that renters earn the lowest incomes then most of these homeowners should have sufficient income to upgrade to at least a two-bedroom and probably a three-bedroom townhome.

### New Move-Ins

Since 2010, the population of Lake County has increased by an average of 39 residents per year (See *Figure 11*). Given the average household size of 2.37 the increase in population leads to nearly 17 new households moving to the County every year. The County has issued an average of 21 building permits per year over the past five years so the rate of new building is barely keeping pace with new residents moving in and doesn't account for obsolescence.



Source: Census Bureau

**Figure 11: Population Changes**

### 2<sup>nd</sup> Home Buyers

There is strong anecdotal consensus that the current increase in home sales is being driven largely by 2<sup>nd</sup> home buyers. In interviews with local real estate agents, they indicate that a significant percentage of home sales – recently greater than 50% - are to people from the front range or elsewhere who are buying a second home in the County. The presence and increase of these buyers is significant because they are not counted in the population increase figures and are additive.

## PROPOSED PROJECT

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### HOUSING STUDY CONCLUSION

This Downtown Housing Feasibility study has brought a number of market imbalances to light, including:

7. **The high share of renters compared to owners.** Nearly 40% of all housing units in Lake County are rented—significantly more than in Chaffee County and about five percentage points higher than in the state. Furthermore, rental rates in relation to the price of homes is much higher in Lake County than in the comparison markets. Many households who are now renting are paying as much or more for rent than they would for a mortgage.
8. **The low percentage of attached single-family units.** Only 3.5% of all housing units are attached single-family homes – only half the percentage of Colorado.
9. **The under-consumption of housing.** 26% of all households are living in homes under \$150,000 but could afford a more expensive home. Compared to Chaffee County and the state, households in Lake County are spending less of their income on housing.
10. **The poor quality of available housing stock.** The median house in Lake County is 53 years old—18 years older than the median Colorado home. With many of the housing inventory being over 100 years old, with small lots and no upgrades, there is little motivation nor opportunities for upgrading homes.
11. **The high cost of new construction and remodeling.** The distance from building materials and the high demand for tradesmen in other communities have driven construction

costs higher in Lake County and made remodeling unattainable for most homebuyers.

12. **There is insufficient new construction to keep pace with demand.** Because construction costs are so high, it is very challenging for home builders to build entry-level homes. The vast majority of new homes that are being built are custom homes at the higher end of the market.

Keeping these market imbalances in mind, the most effective way to address market failure and to allow for a healthier, more efficient housing market is to introduce new for-sale housing units to the market.

The recommended project is a multi-phase townhome development in Leadville with the first phase comprised of 86 units. A townhome project would allow for a developer to take advantage of economies of scale in construction and keep the price point low for the end consumer—allowing homeownership opportunities to a wider market segment than what existing home inventory caters to.

## TOWNHOME PROJECT SUMMARY

The first phase of the proposed project consists of 86 townhomes made up of 2 and 3 bedroom units, ranging in size from 1,250 to 1,450 square feet. The first phase should be constructed over three years to allow time for the market to absorb the units at a rate of 30 or fewer units per year. The townhomes will be located at a site to be determined but may be the current St. Vincent Hospital site and will include large common park areas, picnic tables, small fenced yards and enclosed garages.

With a land acquisition cost of \$5.00-\$7.00 per square foot and a construction cost of \$113 per square foot, development costs come out to just under \$14,000,000 or approximately \$120 per square foot. At an average sales price of \$187,500 for the 2 bedroom townhomes and \$217,500 for the 3 bedroom units, gross sales proceeds total approximately \$17,400,000. After accounting for closing costs, net total proceeds from the projects comes to approximately \$4,400,000, representing an 10.7% cash on cash return to a developer.

<b>Project Type</b>	For-Sale Townhomes
<b>Units</b>	86
<b>Bed/Bath</b>	3/2 & 2/2
<b>Unit Sizes</b>	1,450 SF & 1,250 SF
<b>Garage</b>	2-Car & 1-Car Enclosed
<b>Location</b>	TBD
<b>Development Cost</b>	13,945,000 (~\$120/SF)
<b>Unit Sales Price</b>	\$187,500 - \$217,500
<b>Cash on Cash Return</b>	10.7%



*Proposed Site Layout*