

Transit-Oriented Upzoning in Colorado Can Deliver Jobs, Growth, and Affordability

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Chair Exum, Vice Chair Gonzales, and members of the committee, thank you for inviting me to comment on transit-oriented communities. I am an economist at the Mercatus Center at George Mason University, and I study housing markets. The Mercatus Center is a non-profit, non-partisan research center dedicated to bridging the gap between academic ideas and real-world problems.

The Housing Theory of Everything

Housing costs in Colorado spiked in the early 2020s, as they did across the US. Median apartment rent in metropolitan Denver is 21 percent higher now than it was on the eve of the pandemic, four years ago.¹ And median single-family home prices are 35 percent higher.² Those cost increases are eating up a big chunk of average wage growth over those years.

Economists and others who watch housing markets have begun to buy into the “housing theory of everything.”³ The theory goes that most major problems in modern society are downstream of housing—providing abundant housing in high-demand locations would make it easier to increase economic growth, redress racial injustices, balance budgets, slow climate change, produce great art, strengthen families, find a good job, and so on and on.

¹ Zillow Observed Rent Index (multifamily, smoothed and seasonally adjusted) Jan 2020–Jan 2024, Zillow Data, <https://www.zillow.com/research/data/> (accessed 3/3/2024).

² Zillow Housing Value Index (single family, smoothed and seasonally adjusted) Jan 2020–Jan 2024, Zillow Data, <https://www.zillow.com/research/data/> (accessed 3/3/2024).

³ John Myers, Sam Bowman, and Ben Southwood, “The Housing Theory of Everything,” *Works in Progress*, September 14, 2021; Salim Furth, “Why We Need to Achieve Housing Abundance,” *Discourse*, February 9, 2023, <https://www.discoursemagazine.com/p/why-we-need-to-achieve-housing-abundance>.

Let me zoom in on two of those downstream phenomena: jobs and economic growth. Cities are fundamentally labor markets.⁴ But regulatory limits on housing construction in job-rich areas put jobs out of reach. Some people respond to the artificial housing shortage by moving to cheaper land at the edge of the metro area. There, they can reach most jobs, but not ones on the far side of the metro area. Other people respond to the lack of available, attainable housing by moving away altogether. Both groups end up missing out on job opportunities.

Economic growth, of course, is just the sum of individual income growth. So, when zoning prevents individuals from bettering themselves, it shows up in the national accounts.⁵

Mile-High Problems, Mile-High Solutions

A number I reference often is minus two-thirds. That's the best estimate of the rent elasticity of housing demand.⁶ In English, it means that to decrease rent by two percent, you need a three percent increase in the stock of housing. Most lawmakers are hoping for something more like a 20 percent decrease in rent—which means they should be thinking about making space for 30 percent more homes in job-accessible locations.

The bill before you, HB 24-1313, is at a scale big enough that you can reasonably hope it will lead to double-digit rent decreases. Back of the envelope math suggests that the bill will create regulatory space for over a million dwellings in the Denver metro area.⁷ Building takes time. Major upzonings like this deliver new housing for decades: Arlington, Virginia, where my office is located, is still opening new apartment buildings in a large transit corridor that was initiated before I was born.⁸

Slow and steady wins the race: A statewide upzoning of the scale conceived in HB 24-1313 would open a multi-generational spigot of new housing, create decades of downward pressure on prices, and put the state, its citizens, and its businesses in position to weather future crises.

⁴ Alain Bertaud, *Order Without Design: How Markets Shape Cities* (MIT Press, 2018).

⁵ Gilles Duranton and Diego Puga, "Urban Growth and Its Aggregate Implications," *Econometrica* 91(6): 2219–51, December 2023; Fil Babalievsky et al., "The Impact of Commercial Real Estate Regulations on US Output," (National Bureau of Economic Research Working Paper No. 31895, November 2023).

⁶ David Albouy, Gabriel Ehrlich, and Yingyi Liu, "Housing Demand, Cost-of-Living Inequality, and the Affordability Crisis," (National Bureau of Economic Research Working Paper No. 22816, November 2016).

⁷ I cannot stress enough that this is back-of-the-envelope math aimed at estimating the order of magnitude. The Denver metro area has 78 RTD stations plus several dozen miles of frequent bus service (State of Colorado, *Housing Proposals Overview*, unpublished presentation). The half-mile circle around each station contains 500 acres; each mile of frequent bus service creates a "transit corridor area" of 320 acres. I assume that half of the covered land is non-exempt. At 40 units per acre, this would imply a zoning capacity requirement of 10,000 units per station and 6,400 per mile of frequent bus service. Allowing for some overlap, this might yield 700,000 units of zoning capacity near rail stations and as many or more on bus corridors. Existing zoning, of course allows dense housing on much of this land. The net new capacity is likely half or less of the total capacity.

⁸ The version of this testimony given in the House inadvertently included the word "don't" in this sentence, reversing its meaning. The author regrets the error.