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Colorado among toughest markets to crack for first-time homebuyers

Shortage of for-sale inventory, high prices among the challenges facing state's younger buyers, Bankrate.com report says

By **EMILIE RUSCH** | erusch@denverpost.com | The Denver Post

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It's not just your imagination: Colorado is one of the most difficult places in the country for first-time home buyers to break into the housing market.

That's according to a report released Tuesday by Bankrate.com ranking all 50 states based on home prices relative to income, job prospects for young adults, market tightness, credit availability and homeownership rates among millennials.

Colorado finished in the top 10 — and not in a good way — the eighth toughest state in the U.S. when it comes to being a first-time home buyer, the report said.

Rounding out the ten toughest markets were California, Hawaii, New York, Louisiana, Mississippi, Rhode Island, Texas, Oregon and Massachusetts. On the other end of the spectrum, Iowa, Utah, Minnesota, Kansas, Missouri, North Dakota, South Dakota, Wyoming, Vermont and Nebraska were the 10 easiest states for first-time buyers.

“Tight market conditions and unaffordably high prices really plague what many young Americans feel are the most desirable places to put down roots,” Bankrate.com analyst Claes Bell said.

Colorado landed on the list where it did largely due to the shortage of available for-sale inventory in the market, Bell said.

The state's housing market is one of the tightest in the nation, the report said, looking at Census data on the percentage of vacant homes for sale or rent, as well as the growth rates for housing stock versus number of households.

“Something I heard again and again is that first-time homebuyers suffer in a tight market. Sellers are getting multiple offers,” Bell said. “Because first-time buyers tend to be financing a large amount of their purchase relative to other buyers, they may get shortchanged.”

Colorado earned a whopping 0.0 in the report’s housing market tightness category, the lowest of all 50 states. (By comparison, New Mexico got the highest score with 10.0)

“The population is growing really quickly — people want to live there, it’s a place with a high quality of life and strong job market — but homebuilding is just not keeping up with the growth in households,” Bell said. “The situation isn’t likely to improve until homebuilding accelerates or demand falls.”

In metro Denver, builders started 11,038 homes last year, 22 percent more than in 2015, according to Metrostudy. But that’s still far below the 16,000 to 18,000 new homes a year experts believe are needed to keep up with population growth.

The goal was to take a broader view of the potential challenges facing first-time homebuyers, beyond just being able to afford mortgage payments, Bell said.

(Affordability certainly matters, though, especially in a market like Denver where homebuyers needed to earn at least \$72,771.94 a year to buy a median-priced home in the fourth quarter — and even more if they only put down 10 percent, instead of 20 percent, according to HSH.com. The median household income in the Denver metro area was \$70,283 in 2015, the most recent Census data available.)

Lower credit availability, determined from data from the Home Mortgage Disclosure Act on rejected mortgage applications, for one, is what pushed states like Louisiana and Mississippi near the bottom of the pile despite relatively more affordable housing stock.

The job market for younger workers — derived from unemployment numbers for ages 25-34 — also plays a role. Younger buyers, Bell said, typically have thinner credit files, which makes their employment history and ability to find work in the future all the more important.

But before you give up all hope, Bell recommended first-time buyers look into buyer-assistance programs in their area, as well as whether they qualify for a FHA loan requiring a lower down payment.

“You don’t have to have 20 percent or even 10 percent down to buy a house,” he said. “A lot of first-time buyers qualify for FHA loans.”

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Emilie Rusch