STATISTIC/TRENDS SUMMARY

Colorado Springs 50+ Unit Apartment Properties — Fourth Quarter 2017

A summary of the Colorado Springs apartment activity for the fourth quarter of 2017, as reported in "APARTMENT INSIGHTS' Statistics/Trends, indicates:

⬆ VACANCY: 4.89%

Vacancy in stabilized properties increased by 47 basis points (bps) this quarter to 4.89%. A seasonal increase this time of year is expected, and this increase is smaller than the 71 bps increase recorded a year ago. However, the current vacancy figure is 59 bps higher than the year-ago rate, and the trailing four-quarter average has increased for five quarters in a row. The current trailing figure of 4.77% is the highest it has been in two years.

The overall vacancy rate, including properties in lease-up, increased again this quarter, moving up 63 bps to 7.59% This is its highest level in four years.

Areas: Vacancy increased in all submarkets except one this quarter. Security/Widefield/ Fountain (SWF) saw vacancy fall 60 bps to just 3.01%, easily the lowest in the metro area. Palmer Park (PAL) posted the largest increase, moving up 82 bps to 5.26%, the second highest in the region. Only the North (NOR) submarket had higher vacancy at 5.44%, up 54 bps from last quarter.

Age: The newest age group posted the largest increase in vacancy this quarter, moving up 130 bps to 5.59%, which is now higher than all of the older age groups. It is no coincidence that the number of units in lease-up reached a record high this quarter, at 1,466 units, reflecting more intense competition at the top end of the market. This is combined with the lowest annual rental growth of any age group, as discussed in a following section.

Tax credit: Vacancy for tax credit properties reached a record low this quarter, decreasing 44 bps to 1.63%. This rate is exactly 100 bps lower than one year ago.

⬇ ABSORPTION: +44 units

Annual absorption has been slowing from a peak of 914 units in 1Q 2016. The current quarterly absorption of just 44 units did little to change this trend, with the annual gain now at just 181 units. The timing of this lull in absorption has occurred while a large number of new units has been delivered to the market. The result has been increasing vacancy from both factors

⬇ RENTS: $1,014 per Unit
$1.24 per Sq. Ft.

The average rent for the metro area decreased by $5 and one penny during the quarter to $1,014 per month and $1.24 per square foot. Still, these figures are the second highest figures ever posted, only slightly below last quarter's record highs. The annual gain fell to $54, the smallest in eight quarters. The annual growth rate slowed to 5.6%, but this is still an impressive gain.

Age: Annual rent growth was generally higher for older properties, and slower for the newest age groups. Properties built since 2010 had rents increase by 4.2% over the past 12 months, while those built during the 1970s showed a 6.6% increase.

Net: The market-wide net or effective rent decreased by a larger $15 during the quarter to $999, but this rate is still the second highest net rent ever reported. With concessions increasing from $5 last quarter to $15 this quarter, the annual rental growth rate slowed to 4.7%, the slowest pace in three-and-a-half years.

SALES (arms length): $152,364 per Unit $179.89 per Sq.Ft.

There were nine sales during the quarter of 50-unit and larger properties, averaging $152,364 per unit and $179.89 per square foot, as this went to press in late December. The highest price paid was for Lookout on Cragmor, a student project selling for $218,958 per unit and $229.68 per square foot.

Annually, there were 20 sales with 3,111 units during 2017, totaling just under half a billion dollars. This was less than the 23 sales with 4,453 units that transferred during 2016. The average price per unit was much higher during 2017, 35% higher. The price per square foot was 25% higher. This was due to an average age that was newer by four years and significant price appreciation.

OBSERVATIONS

Vacancy has been moving higher since reaching a low point in the third quarter of 2016. This has been accompanied by slowing rent growth, which had peaked during this time frame at over 9% per year, but now is just over 5%, with effective rent growth less than 5%. New product is being added somewhat faster than it is being absorbed, which is also being reflected in the overall vacancy rate (which includes properties in lease-up) that has moved above 7% this quarter, a four-year high.

Still, the stabilized vacancy rate remains below 5%, and rent growth remains strong in the 5% range. The construction pipeline contains a reasonable number of units, both under construction and proposed, so the market is expected to remain fairly balanced in the near future, assuming there is not an economic recession over the next couple of years.

With nine sales, the fourth quarter was well above average. Investor demand, while strong, resulted in fewer sales in 2017 than during 2016, which had been an active year. We expect the sales momentum to continue into 2018.

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