APARTMENT TRENDS ®
SUMMARY

Metropolitan Denver 50+ Unit Apartment Properties | Fourth Quarter 2017

A summary of the Metropolitan Denver apartment activity for the fourth quarter of 2017, as reported in "APARTMENT INSIGHTS' Apartment Trends®, indicates:

⬆ VACANCY: 5.63%

The vacancy rate for stabilized properties with 50 or more units in the Denver Metropolitan area increased by 36 basis points (bps) during the fourth quarter to 5.63%. A seasonal increase this time of year is expected. This rate is just 6 bps above the fourth quarter rate one year ago, 76 bps above the rate two years ago, and 150 bps above the rate three years ago, the cyclical low point. The trailing four quarter average vacancy rate increased to 5.59%, the tenth quarterly increase in a row.

The overall vacancy rate, including both stabilized properties and properties in lease-up, moved up 37 bps this quarter to 10.61%. This is the highest level since early 2009.

Areas: The highest vacancy rate this quarter occurred in the Highlands Ranch (HLR) submarket at 6.88%. This is up 87 bps during the quarter. The lowest rate occurred in the Erie (ERI) submarket, which includes the towns of Frederick and Firestone. The 1.79% vacancy rate includes just a single stabilized property in this district. There are three more properties in lease-up.

Age: Vacancy increased across all age groups. However, newer properties had larger increases, and resulted in newer properties having the highest vacancy rates. For properties built since 2010, vacancy increased by 79 bps to 6.13%, the only age group above 6% vacancy. For properties built during the 1970s, vacancy increased just 2 bps to 5.31%, the lowest of the primary age groups. There were very few large properties built before 1970, so they are not included in this discussion

Tax credit: Vacancy for tax credit properties increased by 13 bps to 1.74%. This is 11 bps higher than the rate one year ago of 1.63%. The record low of 1.55% was reached in 1Q 2016.

⬇ ABSORPTION: 1,181

Absorption fell to 1,181 units this quarter, but is well above the year-ago gain of 339 units. Therefore, the resulting trailing four-quarter total increased to 6,911 units, the highest since the third quarter of 2016.

The CBD once again had the highest absorption of any submarket this quarter. The 416-unit gain was below last quarter's record 694, but higher than the 4Q 2016 gain of just 61 units. This increased the annual total absorbed in the CBD to 1,795 units.

⬇ RENTS: $1,396 per Unit
$1.61 per Sq. Ft.

The metro-wide average rent experienced its usual seasonal decrease, falling by $27 and $0.03 during the quarter to $1,396 per unit and $1.61 per square foot. Last year at this time, rents decreased by $20.

The annual rental growth rate decreased from last quarter's 4.7% to 4.3% this quarter, which is still strong rental growth. The current rent is $57 higher than a year ago.

Areas: Although rents decreased by $70 in Boulder North (BON) this quarter, more than double the average rental decrease, it still had the highest rent of all of the submarkets at $1,845. The CBD had the next highest rent of $1,812, down $16 from the previous quarter.

Only one submarket had rents lower than a year ago – Washington Park (WSH) – decreasing by $16.

Although increasing by $34 in a declining quarter, Aurora Northeast (ANE) still maintained the lowest rent of any submarket at $1,075 per month.

Age: Rents decreased across all major age groups during the quarter, with newer properties sustaining larger decreases. Rents in the 2000s and 2010s age groups fell by $57 and $56 respectively, while properties built during the 1970s fell only $4.

Annually, rent growth remained positive for all but the newest age group, which had rents decline by a dollar. Older properties posted the highest growth rates, moving up from 4.2% for properties built during the 1970s to 5.6% for 1980's construction.

Net: The metro-wide net or effective rent decreased by $36 this quarter to $1,377. This is 4.2% higher than a year ago, but lower than last quarter's trailing 12-month growth rate of 4.5%. Concessions almost doubled from $10 last quarter to $19 this quarter. This equates to 0.7% of gross rent. The largest concessions were found in the newest age group.

⬆ SALES (arm's length): $223,127 per Unit $259.69 per Sq. Ft.

It was an active quarter, and sales were rolling in steadily toward the end of the year as this went to press. So far, there had been 32 sales averaging $223,127 per unit, and $259.69 per square foot. The average year built was 1994. Steele Creek had the highest price at $577,982 per unit and $605.96 per square foot, after reducing the price for the retail space in the building.

Annually, there were 103 transactions so far, totaling $5.3 billion for 23,891 units in properties with 50 or more units. This is below 2016's total of 126 sales with 31,011 units selling for almost $6.4 billion. The average prices per unit and per square foot increased by 8.9% and 7.6%, respectively, over the previous year, while the average year of construction was two years newer.

➡ OBSERVATIONS

The rental market typically softens as we head into winter, and this quarter was fairly typical of past years. Vacancy increased and rents decreased, pretty much on par with the past. Absorption slowed from the previous two quarters, but was higher than this time last year.

Simply put, there is a huge number of apartments under construction in the metro area. But, once again, construction delays prevented a flood of units from hitting the rental market. While there continues to be approximately 30,000 units under construction, only slightly more than 10,000 units were completed during 2017. While there were 15,000 units scheduled to be delivered, construction delays were expected to reduce this figure to approximately 12,000 to 13,000 units by year end. However, this initial estimate understated just how unsuccessful developers would be in completing their projects. Instead, almost a third of the scheduled units were pushed back into 2018.

The 10,000+ units completed in 2017 would indicate an almost 3-year supply is under construction (30,000/10,000), yet the vast majority of construction schedules show delivery in 24 months or less. This would point to completing over 15,000 units per year. The delays result from a lack of available manpower. While the construction labor base should have grown by now, and perhaps it has, there is still a growing number of projects under construction, competing for the limited labor supply. We expect construction delays to continue, and possibly worsen with material shortages due to the hurricanes and fires in California.

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