

Housing market remains in holding pattern

5 years after COVID, buyers have more options, but affordability a problem

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March marked the fifth anniversary since COVID-19 rocked the globe, and despite initial expectations of a pandemic slump, metro Denver's housing market roared higher for two years and has managed to camp out on an elevated plateau the past three years, waiting for the clouds of high mortgage rates to clear.

Between March 2020 and April 2022, median home and condo prices in metro Denver raced 38.5% higher, an unprecedented surge, to a peak of \$616,500, according to a new analysis by the Denver Metro Association of Realtors.

Low mortgage rates and remote work arrangements fueled demand and pushed the supply of available homes to historic lows. That triggered intense bidding wars and fueled even more demand.

A move in 30-year mortgage rates from around 3% in the early days of the pandemic to around 7% in late 2022 has acted as a strong headwind against additional appreciation and pinned the market down. The median sales price in March was \$599,000 — 3.9% below the peak in April 2022.

What has changed is the available inventory and the pace of sales, which have provided buyers with more negotiating power.

There were 9,764 condos and single-family homes available for sale at the end of March, a 14.1% gain from February and a 67% increase from March 2021. In March 2021, there were 1,921 properties and by March 2022 there were only 1,221.

Essentially, buyers now have eight times as many options to choose from on the market compared to what was the case three years ago. But the volume of buying hasn't accelerated, and again that is due to a lack of affordability.

Looking across the first quarter of 2020, there were 12,065 properties sold, while in the quarter that just ended there were 8,697 sold, a decrease of nearly 28%. But that tapering happened early in the pandemic recovery. Buyers closed on 4,889 properties in March 2021 and 3,202 in March 2022. Last month they closed on 3,515 properties, according to DMAR. "Five years later, the Denver Metro is experiencing the 'after' — a market returning to balance, though shaped by high interest rates," said Amanda Snitker, chairwoman of the DMAR Market Trends Committee, in comments accompanying the report. "This market stabilization has come with lower buyer demand, higher inventory levels and stagnating prices."

The 12.8% pace of average annual gains seen in the first two years of the pandemic was not sustainable, and the 6.9% annual appreciation rate averaged over the past five years is more realistic. But even that slower pace has outstripped the wage increases that serve as a key support for home purchases. And they are above the premium over inflation that housing normally generates.

Temperatures are much cooler on the high plateau where metro Denver's housing market finds itself. In March 2021, listings went under contract in 19 days on average. Near the market peak in 2022, the average was 15 days. Last month, listings required an average of 48 days to find a willing buyer.

What comes next is uncertain. The clouds of high interest rates could pull away, allowing affordability to improve and the markets to march higher. Or the light fog could turn into a bitter economic storm that forces the housing market lower.

After the initial waves of the pandemic passed and the economy reopened, job growth has been solid, providing key support to home-buying activity despite higher interest rates. But the pace of hiring has slowed significantly in the past year and Colorado is underperforming the country as a whole.

In February, Colorado added 500 jobs over the prior 12 months, or 10,500 if the striking King Soopers workers are added back in. Even at 10,500 jobs added, the annual gain was the weakest since early 2021.