

Rent deals plentiful in oversupplied market

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Landlords anxious to fill their empty apartments have sweetened incentives to levels unmatched in the past 15 years, with some newer buildings offering up to three months of free rent, according to the Apartment Association of Metro Denver.

The average concession is more in the three-to-four-week range, and free rent deals are being offered on properties of all age ranges, except for the most popular buildings in the most popular locations. Concessions are pushing down "effective" rents to the point that older properties with fewer amenities are having a hard time keeping their tenants from upgrading.

"This is impacting the entire market. You're seeing basically what I would call a move-up effect, or a ladder effect, where the newer properties are offering significant concessions and that's bringing their effective rents down," said Scott Rathbun, president of Apartment Insights, which prepares a quarterly report for the AAMD. Note

Rathbun said tenants are leaving older apartments to occupy shiny new units and paying similar or only slightly higher rents. With about half of the apartments turning over in a given year, tenants are finding it worthwhile to shop the offers.

Apartment owners are hesitant to drop actual rents and view incentives as a way to attract tenants while they wait for an oversupplied market to turn around. Those offers can be fine-tuned or taken off the table when it comes time to renew a lease.

But so much new supply has hit the market that stated rents have moved lower in three of the past four quarters, with the average rent down 5% over the past year to \$1,816 a month. Rents are now at their lowest levels since the first quarter of 2022, according to the AAMD's Vacancy & Rent Report released Tuesday.

Beyond that, concessions now represent 5.8% of the stated rate, the highest level seen since 2010, when a severe housing downturn was weighing on the market. Rental concessions averaged \$107 in the third quarter, bringing the average effective rent to \$1,709 a month.

Compared to two years ago, when the effective rent was \$1,874, a typical renter is saving \$165 less per month or nearly \$2,000 a year. One-bedroom units, looking at effective rents, are now competitive with affordable rents targeting tenants making 60% of the area median income (AMI), not counting the additional break on utilities that affordable developments provide, Rathbun said. Two-bedroom effective rents are averaging at around 65% to 67% of AMI.

But the more generous incentives could prove a limited-time offer. The apartment vacancy rate fell from 6.4% in the second quarter to 6.3% in the third and is down from what, barring a recession, may end up being a peak of 6.9% reached in the fourth quarter of 2024.

Last year, developers added 20,000 new apartments in metro Denver, about double the average pace seen in recent years. Just under 15,000 have been added in the past 12 months. But higher borrowing costs, lower returns and heavier regulations have significantly shrunk the pipeline of projects. Note

"The number of new apartments under construction continues to decrease from its peak in mid-2023," Rathbun said. "This should lead to fewer units available in the coming quarters and continue this downward trajectory in vacancies."

Boulder and Broomfield, which are combined in the report, continue to claim the lowest vacancy rate at 5.1%, while Arapahoe County has the highest at 7.0%.

The biggest rent declines are coming in properties built in the 2020s and in the 1970s.

