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Apartment vacancy rate at 16-year high

New construction added more units; average rent fell to levels from 2023

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Developers continue to deliver so many new apartments that vacancy rates have reached a 16-year high and the average rent has fallen below levels seen two years ago, according to a first-quarter update Thursday from the Apartment Association of Metro Denver. (AAMD)

The average apartment rent in metro Denver fell to $1,819 in the first quarter, down from $1,842 in the fourth quarter and $1,846 in the first quarter of 2023. Had average rents kept up with overall inflation, they should be closer to $1,951 a month.

"This occurred because we had such a strong and large construction pipeline," said Cary Bruteig, a researcher with Apartment Insights and the report's author.

Builders have added 20,822 new apartments in the past 12 months, while renters have leased or "absorbed" 14,504. That overhang has helped push up the vacancy rate or share of unfilled apartments to 7% from 5.8% in the fourth quarter, the highest levels seen since the Great Recession.

Douglas County has the lowest vacancy rate at 5.8%, while Denver has the highest at 7.7%. In the most distressed submarkets — southeast Denver and western Aurora — the vacancy rates are above 9%, with some older buildings sitting 20% empty and revisiting rents seen in 2017, said Darren Everett, managing principal at Two Arrows Group, who spoke on a press call hosted by the AAMD.

The lowest average rents are found in buildings built in the 1970s, while some of the highest value for the dollar spent can be found in newer apartments in central Denver, which has seen a disproportionate concentration of new multi-family construction.

"While the average apartment that was built in the '70s has a rent of $1,497, there are many places that you can lease for under $1,000 per month," Everett said.

Landlords can handle a 5% vacancy rate and will squirm when it gets above 6%. They take action when it gets to 7% by cutting rents and offering more concessions, Bruteig said. Landlords would rather have more apartments occupied at a lower rent rather than have them sit empty in pursuit of a higher rent.

Given how many new units were being built, Bruteig said he thought the market's breaking point would have come a year or two ago. Historically, the market has absorbed an average of 5,000 to 6,000 new apartments a year, going back to the early 1980s. In the past decade, the average rose closer to 10,000 a year. It has run closer to 15,000 in the past year, an unprecedented response.

But in their apartment eating contest against developers, renters are finally pushing away from the table and saying too much. The problem is that about 30,000 more apartments are getting cooked up in the kitchen, a process that can take three or four years.

If the economy holds up, then renters should find favorable conditions for another year or two until supply and demand get back in balance. What concerns Bruteig is that the high vacancy rate and rent decreases now being seen are more commonly associated with the start of a recession.

If job losses increase, then absorption rates would likely fall as renters fail to keep up due to reduced incomes, more households double up and fewer people relocate to the region for work. Absorbing the 30,000 apartments now under construction in metro Denver would take three years at the recent average, or closer to five or six years using the historical average.