

Unsold homes are piling up in metro Denver

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Denver, long known for having a tight supply of homes available for sale, is now a leader among metro areas nationwide for how quickly it is building a backlog of unsold inventory.

The number of homes for sale nationally jumped 28.5% in March compared to the same month a year ago, according to a report from Realtor.com, a listing website. All of the 50 largest metro areas experienced an increase over the past year, with new listings outpacing sales.

San Jose, Las Vegas and Denver all clocked increases of just over 67% or 2.4 times faster than the nationwide average increase. Denver technically had the third largest increase, but the difference amounts to a rounding error — 67.3% vs. 67.9% in San Jose.

“Not only did San Jose, Denver and Las Vegas experience significant gains year-over-year, they are part of the group of 18 metros where inventory levels now exceed pre-pandemic levels,” Danielle Hale, chief economist at Realtor.com, wrote in her report.

Hale notes that nationwide, the inventory of unsold homes is about a fifth lower than it was between 2017 to 2019, with northeastern markets a third below.

That reflects a lack of new homebuilding in that region. Texas markets with strong construction activity like San Antonio, Dallas and Austin, have seen a sharp rise in their inventories.

Local agents offered a variety of explanations for why the supply is piling up, chief among them a sluggish resale market in condos and townhomes, elevated mortgage rates and economic uncertainty, which have sidelined buyers, and more owners seeking to cash out. But they also noted the inventory remains short of historical averages and that years of tight supply have distorted perceptions of what is normal or balanced.

Metro Denver's inventory of homes for sale was at 9,764 in March, which remains below the four-decade average for the month of 13,188, according to counts from the Denver Metro Association of Realtors. The record high was 27,309 in March 2006, with the record low of 1,921 for March set four years ago.

Inventories are increasing faster for condos and townhomes, also known as attached housing, because they share a wall or floor. There were 3,567 listings for attached homes at the end of March, compared to 1,905 a year earlier, an increase of 87.2%, according to DMAR counts. For detached homes, the increase was 57.1%, from 3,944 to 6,197.

A year ago, condos and townhomes represented 32.5% of the inventory available to buyers. Last month, it was 36.5%. But despite the added supply and lower prices, buyers aren't jumping.

“The entry-level condo market is what is driving the stack up. We are backed up on the condo resale market,” said Keri Duffy, a member of DMAR's market trends committee and a Realtor with Kentwood Real Estate.

Because they cost less, condos are considered an important product for first-time buyers, an entryway into the realm of homeownership. Historically, they have offered better affordability, but that advantage is disappearing because of rising homeowners association or HOA fees.

HOA fees cover expenses for shared items, such as roofs and exteriors, as well as for common services, like snow shoveling and waste removal. Condo associations also typically take on exterior insurance costs, and those are skyrocketing. After the mortgage payment, HOA fees are typically the next largest expense item, followed by property taxes, which have also been on the rise.

Although median condo prices are down 6.2% over the past year, it isn't enough to offset higher HOA fees, given that a long-awaited drop in mortgage rates hasn't emerged. Also, some buyers are doing the math and realizing they can buy a newer

detached home for just a little bit more each month than what they would have to pay in repair costs and higher HOA fees to live in an older condo.

Older condo developments that have deferred maintenance can be subject to special assessments. And rising HOA fees can set off a downward spiral that is hard to correct, triggering rising delinquencies among current owners and creating room for more investors to step in and convert units to rentals. Those two things can lead to communities becoming "unwarrantable." That designation prevents government-backed entities like Fannie Mae and Freddie Mac from providing conventional mortgage financing, limiting the pool of potential buyers even more and putting further downward pressure on prices.

About a quarter of Denver homesellers, 24.4%, had to cut the listing price in March, one of the highest rates in the country after Phoenix, Orlando and San Antonio, according to Realtor.com. It was much worse for condo sellers, where 77.2% had to take a haircut in February, according to an analysis from Redfin, a national brokerage.

Mike Bruce, president of DMAR's board of directors, also attributes rising inventory to what he calls "pent-up" seller demand. New listings are up 29% in March year-over-year, while sales were down 5.1%. Some sellers have failed to appreciate how much the market has moved against them after years of being able to call the shots and not having to improve their curb appeal or show an adequate amount of "flex" to buyers.

"There are a bunch of people who tried selling and didn't succeed. They took the home off the market and they are trying again," he said.

Homes have to stand out from the get-go, or buyers, faced with an abundance of choices, will simply swipe left, agents said.

"During COVID, we showed so many dirty homes," Duffy recalled. She then shared a thought she wanted to say out loud — "I know you are going to have 40 offers, but please clean the tub."

Those sellers willing to do the work on the front end are being rewarded even with the higher inventory market, she said.

Homes in prime locations, which are staged well and priced right, and which are turnkey, meaning buyers don't need to put additional work into them, can still move quickly, said Heather O'Leary, a member of the DMAR board and Realtor with eXp Realty.

Listings spent a median of 18 days on the market in March, meaning half of the listings went under contract in under that time and half took longer. That is up from 11 days a year earlier, but still fast. The more concerning number is the average days on market, which went from 39 days to a sluggish 48 days.

The homes that aren't selling are camping out on the multiple listing service for weeks and months, without a taker.

O'Leary said she isn't concerned about excessive inventory. Supply is back to where it was in 2013, when the housing market was coming out of a genuine glut because of overbuilding and loose lending standards. Metro Denver and Colorado remain attractive destinations for those on the move.

But Bruce has noticed a trend, both among the peers he grew up with and the sellers he has represented. Years of strong price appreciation combined with higher living costs are motivating some owners to sell and move to more affordable housing markets in other states.

"The sellers I am dealing with are moving out of state, or they are moving to a retirement facility," he said.

His experience is anecdotal, but population counts estimate only a small increase in the past two years in the net number of people moving to Colorado from other states, which could be contributing to the rising inventory.