Apartment market makes U-turn

METRO DENVER

By Aldo Svaldi

The Denver Post

In three short months, metro Denver's apartment market has shifted dramatically from one with an adequate supply and modest rent increases to something completely different, a market where demand is so ahead of supply that rents are spiking, according to the "Denver Metro Apartment Vacancy and Rent" report from the University of Denver's Daniels College of Business.

The region's apartment vacancy rate, which stood at a comfortable 5.5% in the first quarter, plunged to 3.7% in the second, the tightest rate the local apartment market has experienced since the third quarter of 1999, when the dot-com boom was roaring.

"This is like wow, what is going on here. There is no slack in the system right now," said Ron Throupe, associate professor of real estate at the Daniels College of Business and the report's author.

While not at an all-time low, vacancies are now at the "frictional" rate, the pace at which units are turning over. As soon as apartments open up, they are being claimed, and that is providing landlords, who have struggled through months of missed or partial payments, an opportunity to command higher rents.

The median, or middle point, rent has increased from $1,483.28 in the first quarter to $1,579.93 in the second, a gain of $96.65 or 6.5% in just three months. The annual gain, which includes a soft patch because of the pandemic, is $125.96 or 8.5%.

Average rents increased from $1,543.59 to $1,651.44 in the first and second quarters, a record quarterly gain of 6.99%. If that pace continued over another three quarters, which isn't likely, rents would be up nearly 28% on the year.

Another sign of how upsidedown the metro Denver market became in the second quarter is the absorption rate. New tenants claimed a huge 10,298 units in the quarter, which contrasts with only 8,195 units absorbed last year. In 2018, a boom year, tenants claimed 13,708 units over 12 months.

Despite material shortages and difficulty finding workers, new apartment construction remains on pace with prior years. Developers added 2,495 units during the quarter, on par with what they have been doing in recent years.

Even markets that became glutted during the pandemic, such as downtown Denver and Boulder, have seen available units get snapped up. Downtown Denver's vacancy rate tumbled from 10.9% in the first quarter, its pandemic high, to 5.3% in the second, while the city of Boulder's rate, not counting the university neighborhoods, went from 10.2% to 5.5%.

So how did the apartment market get so tight so quickly? As vaccination became more widespread and the economy reopened, young adults who had moved back in with family moved

back out, as well as the high school and college graduates who delayed getting their first place.

Rising prices for new and existing homes and a lack of inventory also appear to have forced some renters who wanted to own a home to hunker down and renew their leases. Although it is harder to quantify, a federal eviction moratorium that expires Saturday and the availability of rental assistance funds likely has kept some renters in place who otherwise might have moved. Added demand also could be coming from more people moving here, including remote workers who are untethered from having to report to the office every day.

Landlords saw the share of rent they lost because of delinquency, bad debt and concessions shoot up from 7.9% of the total in the first quarter to 11.6% in the second, according to the report.

They may be trying to recoup pandemic losses by charging higher rents, something the constrained market is allowing them to do.

Throupe said that although the dramatic shift in the second quarter might continue into the third, he called it more of a post-pandemic "readjustment" than a new trend. *Aldo Svaldi: 303-954-1410, asvaldi@denverpost.com or @AldoSvaldi*