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Apartment rents plunge as 20,000 units hit market

New inventory causes vacancy rates to jump

A sign advertising apartments for lease hangs on a building in the Hale neighborhood last year. Metro Denver saw a record surge in vacancies and a record decline in rents in the fourth quarter. KATHRYN SCOTT — DENVER POST FILE

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Metro Denver's apartment market experienced its biggest quarterly rent decline on record as a massive wave of new supply swamped demand, causing vacancy rates to rise in every market, according to an update Thursday from the Apartment Association of Metro Denver.

The region added nearly 20,000 new apartments last year, about double the typical pace seen in recent years. And although demand rose to the occasion, with 14,082 additional units leased, that absorption turned negative in the final three months of the year, causing worried landlords to cut rents to remain competitive.

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"So we've been talking about winter is coming, like the TV series ("Game of Thrones") for a while. The statement this quarter is that winter has arrived," said Cary Bruteig, who compiles the quarterly updates on behalf of the association and is a founder and principal of Apartment Appraisers & Consultants in Denver.

In the third and fourth quarters, average monthly rents in the metro area fell from $1,911 to $1,842, marking a 3.6% decline. For only the third time in records going back to 1990, rents in metro Denver declined year over year, with average monthly rents falling from $1,870 at the end of 2023 to $1,842 at the end of 2024, a 1.5% drop.

Add on the 2% annual rate of inflation seen in metro Denver, and tenants theoretically are paying 3.5% less in real dollars.

Annual rent declines are exceedingly rare, and the last two — in 2002 and 2009 — were tied to major economic downturns. The first, following the dot-com bust and 9/11 attacks, was 0.9%. The second, after the housing crash and Great Recession, was 1.5%, matching last year's decline.

High unemployment and a weak economy aren't to blame this time around. Rather, supply has gotten ahead of demand in an unprecedented way, Bruteig said.

Developers added 19,910 new apartments last year, up from 13,246 in 2023 and 10,992 in 2022, which was closer to the historical average of 9,000 to 10,000 new units a year seen in the recent past.

Last year, developers expanded the region's apartment supply by nearly 5%, a pace unrivaled since the 1970s, when the state was coping with an influx of baby boomers.

Tenants stepped up to lease or "absorb" 14,082 of those new units, which was a very strong showing, at least through the first three quarters. Things looked stable despite all the added supply until the fourth quarter, when absorption turned negative by 4,862 units. Renters, stuffed to the gills, essentially pushed their chairs back from the Thanksgiving table and said enough.

That caused the vacancy rate to soar, which, in turn, forced some landlords to start cutting rents.

Bruteig said a 7% vacancy rate is typically when landlords start getting serious about reducing rents, usually after offering significant concessions to attract new tenants. Denver County had the highest vacancy rate, at 7.5%, followed by Adams and Arapahoe counties, at 7.2%. Boulder and Douglas counties had the lowest vacancy rates, at 6%.

The vacancy rate rose in all 33 submarkets that the Apartment Association tracks, with Denver's northeast area reaching a regional high of 9.3%, up from 5.8%. The next-biggest increase came in the Lowry neighborhood, which saw its vacancy rate go from a tight 3.6% to 6.7%.

Downtown Denver, an area that has seen heavy new apartment construction, saw its vacancy rate shoot up from 6.6% to 8.6%. And the communities near the airport saw the vacancy rate shoot up from 6.2% to 8.5%. The Aurora East and West submarkets also reached 8% vacancy rates.

Bruteig has warned about supply imbalances for several quarters, but even he was surprised about how quickly conditions shifted. Bruteig had expected the shifts in vacancy rates to be more contained and concentrated, as newer communities pirated tenants from older ones, forcing them to cut rents first.

Instead, the supply deluge quickly overran every submarket, every age category of apartment and every apartment type, with older apartments and studios seeing some of the biggest increases in vacancy rates.

Even in affordable properties, where demand has greatly outstripped supply for decades, the vacancy rate rose from 3.86% to 4.2% in the final three months of the year.

All of that has translated into rent cuts, which have been most dramatic in Aurora.

Eastern Aurora has seen average rents fall from $1,713 to $1,596 in just three months, while western Aurora saw them drop from $1,577 to $1,477. Big discounts also happened in Westminster, where rents fell from $1,752 to $1,636.

Denver rents held up better, but given the big jump in vacancy rates, it could be only a matter of time before they tumble.

An additional 15,000 new apartments are expected to come online this year, before a sharp decrease in the years that follow. Given that the first quarter is historically a weaker period for leasing activity, the pressure on landlords could intensify, offering tenants looking to relocate the kind of bargains they couldn't have conceived possible only a few months ago.