



DENVER METRO

APARTMENT VACANCY & RENT 1ST QUARTER 2018 REPORT



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AUTHORS: Ron L. Throupe, Ph.D, Daniels College of Business, University of Denver
Jennifer L. Von Stroh, Colorado Economic and Management Associates

Metro Denver Vacancy & Rent Report

EXECUTIVE SUMMARY • 1ST QUARTER 2018



Vacancy Rate

6.1%

Last Quarter: 6.4%

Average Rent

\$1,420

Last Quarter: \$1,396

Average per sq. ft.

\$1.67

Last Quarter: \$1.63

Discount / Concessions

5.7%

Last Quarter: 4.6%

Economic Vacancy

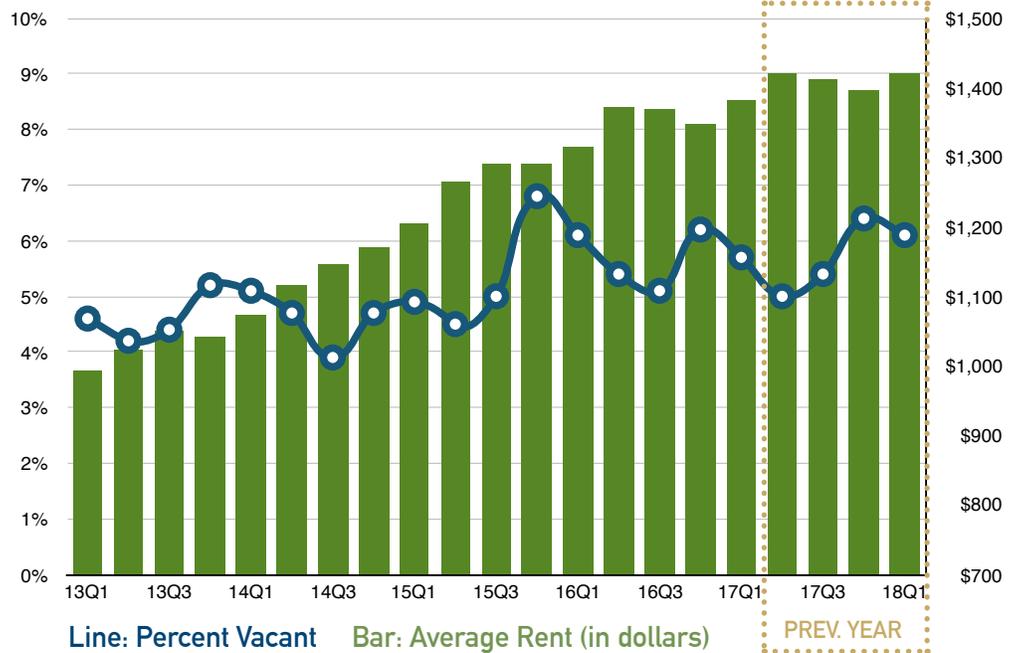
12.2%

Last Quarter: 11.7%

Net Absorption (Units)

2,987

Last Quarter: 3,635

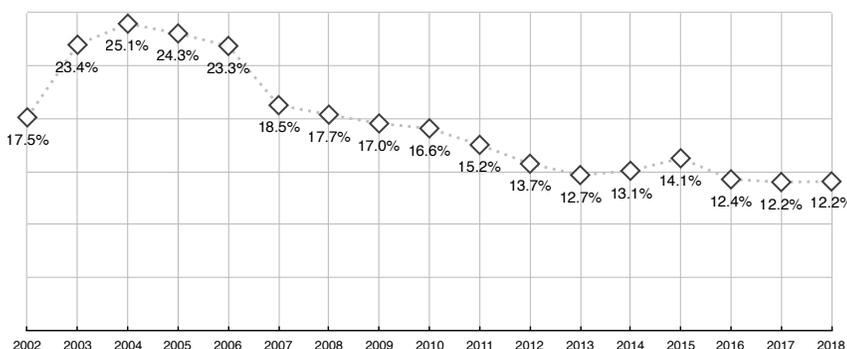


County Overview

ARROWS DESIGNATE CHANGE SINCE PREVIOUS QUARTER

	Vacancy Rate	Average Rent	Rate (/sq. ft.)
Adams	5.8% ↓	\$1,310 ↑	\$1.57 ↔
Arapahoe	4.6% ↓	\$1,347 ↑	\$1.58 ↑
Boulder/Broomfield	4.7% ↓	\$1,546 ↑	\$1.76 ↑
Denver	7.8% ↑	\$1,471 ↑	\$1.80 ↑
Douglas	5.9% ↓	\$1,529 ↑	\$1.61 ↑
Jefferson	6.1% ↓	\$1,415 ↑	\$1.64 ↑

Yearly Economic Vacancy (Average of all four quarters)



Hottest Sub-Markets

Wheat Ridge	2.3%	Commerce City	3.2%
Longmont	2.7%	Littleton	3.6%
Denver - City Park	2.8%	Denver - Central NW	3.9%



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EXECUTIVE SUMMARY • 1ST QUARTER 2018

VACANCY RATE:

- THIS QUARTER: 6.1%**
- » Last Quarter: 6.4%
 - » This quarter 2017: 5.7%
 - » This quarter 2016: 6.1%
- » One county was up in their vacancy rate, and five showed a decrease..
- » Thirteen market areas showed an increase in their vacancy rate, while twenty one showed a decrease, and three remained the same.
- » Buildings with "200-349" units had the highest vacancy rate at 6.4%. Buildings with "Up to 8" units had the lowest vacancy rate of 3.4%. Historically, larger buildings have the highest vacancy rates.
- » Buildings constructed since 2010 had the highest vacancies at 14.8%. Those constructed "1940-1949" had the lowest vacancy rate at 3.3 %.
- » Efficiencies were 9.2% vacant; one-bedrooms 5.9% vacant; two-bedroom one bath 4.4%; two-bedroom, two bath 6.8% vacant; and three bedroom 6.1% vacant.

ECONOMIC VACANCY:

THIS QUARTER:	12.2 %
Last Quarter:	11.7 %
This quarter 2017:	12.5 %
This quarter 2016:	13.0 %

Economic vacancy is defined as physical vacancy plus concessions and discounts as a percent of gross potential rent.

INVENTORY:

NEW UNITS: 2,443 | TOTAL UNITS: 337,840

For the current quarter, there was a net absorption of 2,987 units for the metropolitan Denver area. For all of 2017, 11,821 units were absorbed. For all of 2016, 11,056 units were absorbed. For all of 2015, 864 units were absorbed. For all of 2014, 8,631 units were absorbed. For all of 2013, 4,613 units were absorbed. Absorption is the net change in the number of apartment units rented in the current time period (quarter/year) compared to the previous time period (quarter/year).

SPECIAL TOPIC: Lease Ups

Results for the first quarter of 2018 show an overall decrease in vacancy to a 6.1% rate for the metro Denver apartment market. This result is as expected measuring against the traditionally slow 4th quarter results. The overall average rent was up approximately \$24 to \$1,420.30. The overall median rent was up approximately \$26 to \$1,378.83 and year over year increased by more than \$33. The Denver Metro apartment market once again showed its strength with 2,987 units absorbed compared to 2,443 new units added. This continued strength in absorption, now in a third year, is keeping vacancy stable even with the historical growth in new units added. The second quarter results are expected to be telling for 2018 market conditions.

We are asked over time what waiting period we use before adding new units to a quarter. The answer is we do not wait until a minimum occupancy percentage is achieved. They are included when a Certificate of Occupancy (CO) is awarded. This results in the data showing spikes in vacancy rate for the submarket in which the project is located. Additionally, some projects get releases and a "CO"

RENTAL RATES:

AVERAGE RENT:	\$ 1,420.30
Last quarter:	\$ 1,396.37
This quarter 2017:	\$ 1,382.76
This quarter 2016:	\$ 1,315.39

MEDIAN RENT:	\$ 1,378.83
Last quarter:	\$ 1,352.84
This quarter 2017:	\$ 1,345.58
This quarter 2016:	\$ 1,274.34

RENT / SQUARE FOOT:	\$ 1.67
Last quarter:	\$ 1.63
This quarter 2017:	\$ 1.62
This quarter 2016:	\$ 1.55

AVERAGE RENT FOR UNITS CONSTRUCTED:

2010-now	\$1,789.34
2000-2009	\$1,537.64
1990-1999	\$1,527.78
1980-1989	\$1,321.99
1970-1979	\$1,126.06
1960-1969	\$ 1,190.50
1959 and prior	\$ 1,138.19

Rents do not include the cost of rental discounts and concessions. For the first quarter of 2018, rental discounts and concessions averaged 5.7 percent, up from 4.6 percent for the prior quarter.

OVERALL COMMENTS:

Given further increases in the number of new additions to the inventory this quarter and over the last three plus years, the continued trend in the Denver metro unemployment rate, normal seasonal vacancy changes, continued immigration, and an increase in metro area natural population, continued absorption of units is expected during the year. Rent growth and vacancy rates both have seasonal movements with some variation across certain submarkets. Historically the vacancy rate is higher in the fourth and first quarters than the second and third quarters, which we have seen again so far this year. The number of new units added to the inventory during 2017 increased, as seasonal construction was completed and permitted construction obtained certificates of occupancy. 2,443 new units were reported for the 1st quarter of 2018. Absorption outpaced new units delivered for the first quarter of 2018, but there can be jumps in sub markets vacancy while new units are absorbed. The overall average rent for the last ten years has increased from around \$800.00 in 2002 to over \$1,420.30 this quarter. The overall vacancy rate was at 6.1 %. Absorption was positive for the quarter with 2,987 units being absorbed. The absorption and new supply numbers will continue to be watched closely with significant new additions expected to the apartment stock over the next several quarters.

The Denver Area Apartment Vacancy and Rent Survey reports median and average rates, and, as a result, there are often differences in rental rates and vacancy rates by apartment type, size, location, and age of building/complex. These variances are more pronounced as the vacancy rate has fluctuated during the last several years. All information is based on data received for the month of December, except for resident turnover and rental losses, which is for November.

This survey is conducted via mail and online submissions. It includes only those units with a certificate of occupancy. The first quarter 2018 Survey includes information on 125,474 apartment units. The Survey is possible because of the excellent participation and help of professionals in the apartment industry and the consistent support of the Survey sponsors.

Comments on the Survey are welcome at VonStrohHousing-Survey@gmail.com.

We will use any units built in 2017 to current as a proxy for being in "lease-up". The overall vacancy rate for this lease-up group of properties is 52.6%; A much different story than the average market vacancy of 6.1%.

An interpretation is that in lease-up properties contribute a 1.1% increase to the overall vacancy rate. The properties in lease up account for approximately 20% of the vacant units' metro wide. Thus, if comparing other apartment reports that exclude lease-up, the vacancy rates are not comparable without an adjustment.

We also hear concerns as to the downtown Denver market effecting the overall numbers. The overall "downtown" vacancy rate is 12.7% and the "2017 to current units" has a vacancy rate of 57.7%. Excluding the 2017 to current units' results in a vacancy rate of 6.2%. Thus new projects in lease-up are estimated to raise the overall downtown vacancy rate from 6.2% to 12.7% or 6.5%. Once again, as illustrated, apartment reports which exclude projects in lease-up will have much different results.

as individual buildings or phases of a project are completed. Thus our new unit count may not reflect a completed project. We notate these submarket's vacancy numbers with a "star" to acknowledge this circumstance until a reasonable absorption period has passed. Thus, unlike some other apartment reports that many times do not include projects during initial absorption, we do and this can affect the overall vacancy for that submarket. If there are many projects in lease up, it can affect the overall market vacancy.

The chart below shows this lease-up effect by comparing vacancy rate segments. These rate are the overall Denver metro market vacancy rate, the vacancy for existing stock built before 2017 (2016 and before) and the vacancy rate for units built in 2017 or after, for the overall market and the Downtown market which has seen many new units added.

Let's examine the current data and see how lease-up affects vacancy numbers reported. For this quarter the overall vacancy is 6.1% and the total number of units reporting for the quarter is 125,474.

