Media Release

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Editors/Reporters
• Please click on link to view and download Avison Young's Topical Report: "*The Sustainability of Growth in Denver's Apartment Market*"
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Denver apartment market to undergo gradual correction in coming years

Avison Young releases Topical Report:
"The Sustainability of Growth in Denver's Apartment Market"

Denver, CO – Denver's quality of life and economic opportunities started attracting large numbers of relocating households in 2007. Growing demand for rental housing outpaced development as builders struggled to accommodate the 31,000 new individuals moving to the area annually. Increasing home-ownership costs forced many prospective purchasers to look towards the rental market. In this environment, apartment owners increased rent 52.1% between 2007 and 2017 as inventory expanded 23.8%. Slower migration, job creation and wage growth are cooling the market in 2018. Rental-housing prices will undergo a gradual correction in coming years, and landlords will experience a soft landing – not a crash.

These are some of the key trends noted in **Avison Young's Topical Report: "*The Sustainability of Growth in Denver's Apartment Market*"**, released today.

"Denver provides an enviable quality of life with a strong and diverse employment market, mild climate, low crime rates, access to outdoor recreational opportunities, good school districts, and a vibrant city core," comments **Joshua Manning**, a research analyst in Avison Young's Denver office and the topical report's author. "Some other large metropolitan areas are extremely competitive; however, Denver's combination of economic opportunity and relatively low cost of living, compared with employment centers in the Northeast and on the West Coast, make the Mile High City very attractive to highly educated potential migrants. The population grew 2.6% annually from 1990 to 2000, 1.5% annually between 2000 and 2010, and 1.8% per year through 2016."

To meet demand, developers initiated a multi-family-property construction boom after the Great Recession. Between 2009 and 2016, apartment construction permits increased 36% per year. Conversely, condominium development in Colorado stagnated simultaneously as construction-defect laws enacted in 2005 only required two homeowners to form a class-action lawsuit against a builder. This current pace of rental-housing market growth is likely unsustainable over the long term.

In recent years, strong fundamentals spurred an increase in transaction dollar volume. Investors seeking better returns than the compressed cap rates typical in coastal markets viewed Denver apartment buildings as secure investments. Transaction volume spiked to $6.4 billion in 2016 and $6.7 billion in 2017. By 2017, most of the properties with high-value-add potential were purchased, and cap rates dropped another 50 basis points to 5.5%.

In 2017, market fundamentals suggested that occupancy rates would stabilize at approximately 95%. However, due to the record pace of delivery of new units and associated premium rental rates between 2014 and 2016, a period of market adjustment may be necessary. As residents who narrowly afforded their rental-housing units are priced out of their current units and left with fewer options, lower-priced vacancies will fill faster than newer high-end apartments.

"As new and existing renters in Denver adapt to the new rental-market realities, developers and property managers are also being forced to ride out the lag in wage growth," adds Manning. "Rental-rate appreciation is expected to remain healthy, but has slowed and is unlikely to reach previous highs."

He concludes: "Vacancy should remain near 5% over the next year, while cap rates will remain below 6%. The future trajectory of the market is positive, if slightly less favorable to landlords."

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