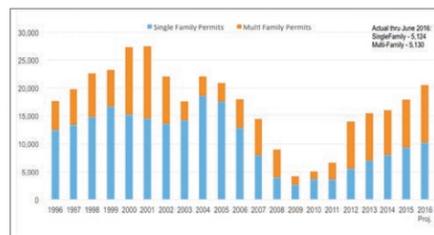




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Denver enjoys a new normal for absorption

As construction continues for new apartments in Denver, apartment investors and developers continue to analyze apartment absorption. Many participants in the industry think there is a new normal and that averages for yearly absorption we have seen in the past are no longer applicable. As multifamily brokers, this is a topic we wanted to explore with readers of the Colorado Real Estate Journal. In this article we will be checking in with experts, looking at demographic trends and economic factors that all are influencing what many see as a new normal in apartment absorption here in Denver.



Transwestern
The number of building permits issued for single-family and multifamily development each year, using data from the U.S. Census Bureau.

“Historically, apartment absorption has averaged around 4,000 units a year in Denver,” said Cary Bruteig with Apartment Appraisers & Consultants.

Bruteig has been tracking apartments and apartment absorption for a long time and was one of the first experts we reached out to for this article. Bruteig said his statistics for the last 30 years show that the Denver metro area has absorbed 4,433 units a year, on average. His historical perspective was a good baseline to check in on as we explore the changes in apartment absorption we have seen recently.

When we start to look at apartment absorption we always first

turn to population growth, which over the past several years has trended higher. According to the U.S. Census Bureau's American Community Survey, population growth for Denver continues to be strong, with Denver ranking as the No. 1 city in the country for population growth rate, which was 2.8 percent for the 12-month period ending July 2015. This is compared to the average annual population growth rate for the 20-year period between 1994 and 2014 of 1.91 percent. Colorado ranks third in the U.S for net migration.

The research team at Development Research Partners pointed out that for the first time ever in 2014, millennials – those who were born between 1981 and 1997 and are the largest apartment rental age group – now exceed baby boomers residing in the state. The metro area's changing demographics, strong population and in-migration growth all set the stage for higher absorption numbers when compared to the past.

Second, when discussing absorption, we need to look at job growth for the metropolitan area. "Job growth in Denver remains strong," said Stephanie McCleskey, Axiometrics vice president of research.

When looking at numbers from the U.S. Bureau of Labor Statistics, the Denver metropolitan statistical area has created 48,100 net new jobs over the 12-month period ending in May. The Bureau of Labor Statistics predicts that 2016 job growth for the Denver MSA will be 45,000 net new jobs, which falls roughly in line with the three-year average from 2012 to 2014 of 46,700 new jobs. It is important to compare these numbers with the average from the last peak in job growth, the years from 2005 to 2007, when Denver averaged only 27,400 new jobs per year. When comparing the two, we can see why the recent strong job growth numbers can support the argument of a new normal in apartment absorption numbers.

Third, it is important to compare activity in building permits in single-family and multifamily development and look at historical trends from a supply side point of view.

The chart shows the historical numbers from the U.S. Census Bureau. According to data provided by its office, the Denver MSA

has averaged 17,050 new housing unit building permits each year from 1996 through 2015.

If you look at the yearly average for the 12 years before 2008, though, it averaged 21,078 housing units per year. The yearly average since 2008 has been only 11,007 housing units or almost half.

If we look at the numbers for each category, we also realize that there has been a large shift in the market. With single-family homes, developers are building only 38 percent as many homes, on average per year, as they did before the housing crash in 2007.

Two other facts should be pointed out with the provided multifamily numbers from the U.S. Census Bureau. Apartments as a percentage of multifamily units counted by the Census Bureau have increased because of decreased condo construction with condo defect litigation risk; and the percentage of housing units that are multifamily units has increased since 2007.

Before 2007, multifamily units made up 31 percent of housing permits; multifamily units now make up 47 percent of building permits. Because of increased scarcity of overall housing units and supply-side substitution in the marketplace, we can see how supply-side economics can support the argument for a new normal in the Denver metro area absorption numbers.

The experts we spoke with pointed to many contributing reasons why absorption numbers are currently higher than in the past.

These include:

- Delayed age for marriage increasing.
- Delayed age for having kids.
- Millennials moving out of their parents homes.
- Baby boomers downsizing.
- More divorced and dual households.
- Qualifying for a down payment.

- Student debt burden on potential home purchasers.
- Lack of affordable housing.

Apartment absorption, including affordable units, has averaged 8,000 units per year for the last several years, according to Bruteig. With several quarters within the past couple of years reaching new all-time record levels. Developers, investors and market participants all hope these new higher apartment absorption levels will continue.

We hope we laid out a solid argument for a new normal in apartment absorption. Historically, the third quarter is the strongest quarter for the metropolitan area for apartment absorption, so we look forward to seeing what the marketplace does during this summer-leasing season.