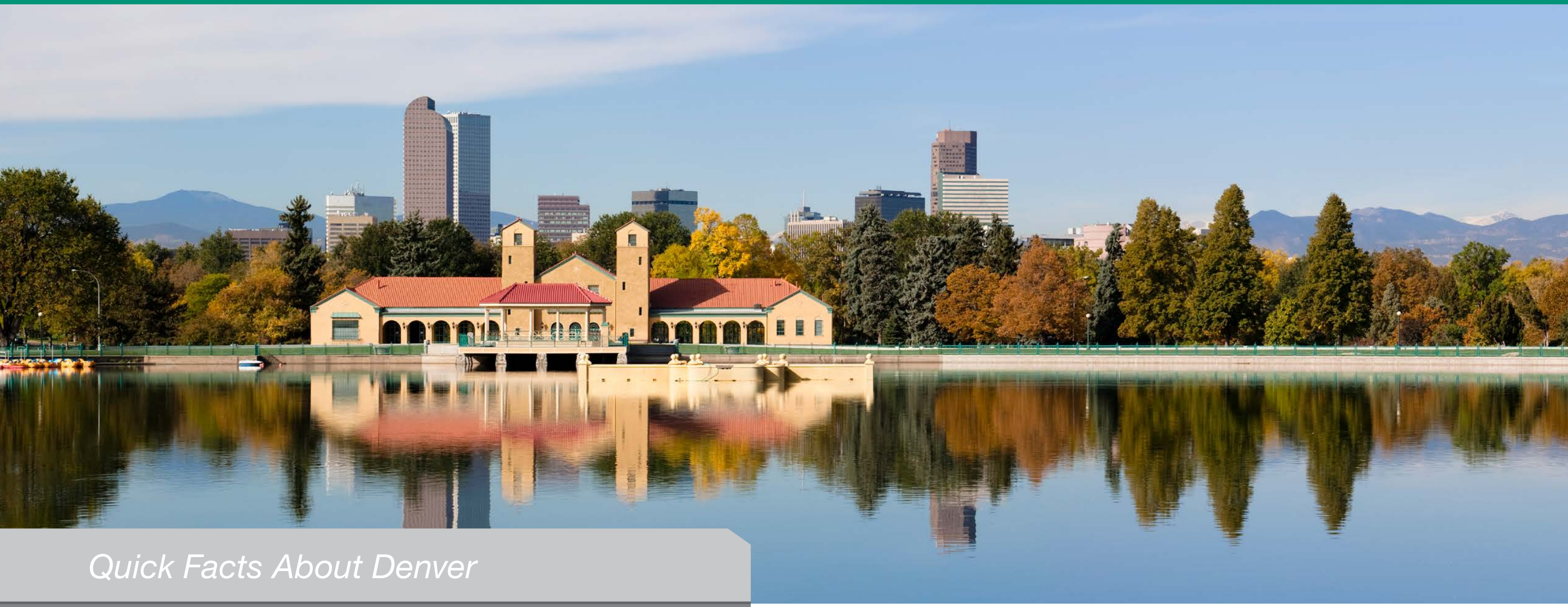
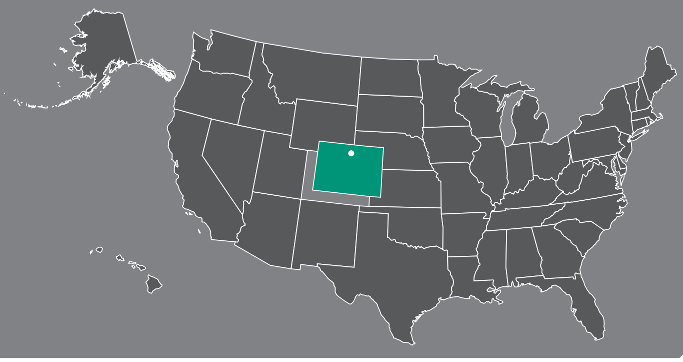
HUD PD&R **Housing Market Profiles**

Denver, Colorado



Quick Facts About Denver

- **Current sales market conditions: tight.**
- **Current apartment market conditions: balanced.**
- **Real estate firm CBRE Group, Inc. ranked Denver eighth nationally for job growth in technology. At least 40 technology companies expanded in Colorado in 2017, leading to net absorption of 400,000 square feet of office space, including more than 200,000 square feet absorbed in downtown Denver.**



By James Conner | As of February 1, 2018

Overview

The Denver metropolitan area consists of 10 counties at the eastern edge of the Rocky Mountains. Leading industries include telecommunications, high-tech manufacturing, business and financial services, and tourism. Migration has been strong in the past 8 years, particularly among well-educated millennials, many of whom are drawn by the area's cultural and outdoor recreation amenities. The current population of the metropolitan area is estimated at 2.92 million, an increase of about 48,400, or 1.9 percent, a year since 2010, or more than double the U.S. population growth rate of 0.8 percent a year. Nearly two-thirds of the population growth resulted from net in-migration, which averaged more than 30,000 people a year since 2010, or nearly double the yearly average for the metropolitan area from 2000 to 2010. The strong population growth has led to rapid increases in the cost of living, however, particularly for housing.

- In 2017, Forbes and *Sperling's Best Places* ranked Denver tenth on its list of "The 20 Coolest Cities in the U.S.," based on measures such as the recreation and arts scene, local restaurants, access to transit, and diversity.

continued on page 2

continued from page 1

- Nearly 60 percent of people who migrated to the Denver metropolitan area from outside the state from 2015 to 2016 had at least a bachelor's degree. In addition, among people aged 25 or older in the metropolitan area, 42 percent had at least a bachelor's degree compared with a national average of 31 percent (2016 American Community Survey 1-year estimates).
- The consumer price index for the Denver metropolitan area rose an average of 2.7 percent annually from 2012 to 2017, or nearly twice as fast as the 1.4-percent U.S. city average, led by housing costs that increased 5.4 percent a year in the metropolitan area compared with a 2.6-percent average rate nationwide.

Economic Conditions

The economy in the Denver metropolitan area has expanded strongly since 2011, but job growth slowed in the past year, partly because of a tight labor market. Nonfarm payrolls in the metropolitan area averaged 1.48 million jobs during the 3 months ending January 2018, a gain of 32,700 jobs, or 2.3 percent, from a year earlier. From 2011 through 2016, by comparison, payroll growth was stronger, averaging 43,800 jobs, or 3.6 percent, a year. Tourism and construction were among the fastest growing industries during the past 12 months. Denver International Airport (DIA) handled 61.4 million passengers in 2017, up 5.3 percent from 2016, and is now the sixth busiest airport in the nation. DIA recently announced plans to renovate its main terminal and add 39 new gates during the next 3 years at a total cost of $3.3 billion. Other recent construction projects in the metropolitan area include the $530 million, 1,500-room Gaylord Rockies Resort and Convention Center in Aurora, with completion expected in November 2018; the $134 million Denver Premium Outlets in Thornton, with approximately 80 stores in 330,000 square feet of retail space, expected to open in fall 2018; and 1144 Fifteenth, a $230 million, 42-story office highrise in downtown Denver, completed in January 2018. These and similar large-scale projects, along with increased homebuilding activity in the metropolitan area and natural disasters elsewhere in the United States, have led to construction worker shortages in the metropolitan area.

During the 3 months ending January 2018—

- The greatest year-over-year job gains were in the leisure and hospitality, the professional and business services, and the mining, logging, and construction sectors, which added a combined 20,000 jobs, an increase of 3.9 percent.

continued on page 3

Payrolls increased in all nonfarm sectors in the Denver area, helped by strong job growth in the business services, tourism, energy, and construction industries.

	3 Months Ending		Year-Over-Year Change	
	January 2017 (thousands)	January 2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	1,442.6	1,475.3	32.7	2.3
Goods-producing sectors	166.6	173.9	7.3	4.4
Mining, logging, and construction	97.7	104.2	6.5	6.7
Manufacturing	68.9	69.7	0.8	1.2
Service-providing sectors	1,276.0	1,301.4	25.4	2.0
Wholesale and retail trade	212.0	214.3	2.3	1.1
Transportation and utilities	56.3	58.7	2.4	4.3
Information	46.7	48.7	2.0	4.3
Financial activities	107.3	108.5	1.2	1.1
Professional and business services	258.2	264.8	6.6	2.6
Education and health services	182.5	186.9	4.4	2.4
Leisure and hospitality	159.4	166.3	6.9	4.3
Other services	56.0	56.4	0.4	0.7
Government	197.6	196.7	– 0.9	– 0.5
	(percent)	(percent)		
Unemployment rate	2.8	3.0		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

- Labor market conditions in the metropolitan area eased slightly but remained tight, with the unemployment rate averaging 3.0 percent, up from 2.8 percent a year earlier.
- Private-sector wages in the metropolitan area were up 4 percent from a year ago to an annual average of about $53,800 (U.S. Bureau of Labor Statistics). Wage growth averaged nearly 2 percent a year during 2016 and 2017 compared with virtually flat wage growth during 2013 through 2015.

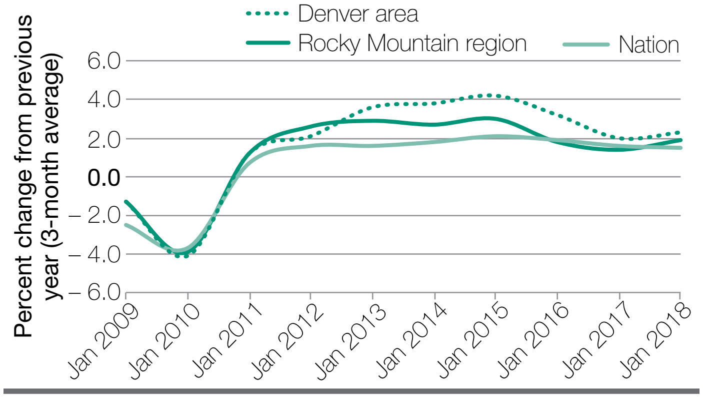
Denver is among 20 finalists Amazon.com, Inc. is considering for its second North American headquarters, dubbed "HQ2." The headquarters project is expected to include a $5 billion investment by the company and will create as many as 50,000 high-paying jobs in the metropolitan area selected, plus tens of billions of dollars in additional investment locally. Amazon plans to announce its HQ2 location decision later in 2018.

Largest employers in the Denver area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
UC Health University of Colorado Hospital	Education and health services	7,110
Lockheed Martin Corporation	Manufacturing	6,250
United Airlines	Transportation and utilities	5,700

Note: Includes private, nonretail companies only.
Source: *Denver Business Journal 2017 Book of Lists*

Job growth in the Denver area outpaced that of the region and the nation during the past 5 years.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

The home sales market in the Denver metropolitan area is tight. Market conditions were balanced as recently as 2012, and new home construction increased during the past 6 years but not enough to keep pace with the growth in overall sales demand. The number of active listings in January 2018 represented a 1.4-month supply of homes for sale, unchanged from a year earlier (Denver Metro Association of Realtors®). Growth in demand has been very strong in the lower price ranges, including entry-level homes, partly because of recent income gains and because of the large number of young, first-time buyers in the metropolitan area. At the lower prices, much of the demand is for existing rather than new homes. Homes priced below $300,000 accounted for 21 percent of active listings in January 2018, down from 34 percent in January 2015, and the metropolitan area had only a 0.6-month supply of active home listings priced below $300,000 in January 2018 compared with a 0.5-month supply a year earlier. The lack of supply has limited sales of existing homes and caused existing home prices to rise sharply; however, the home price gains also contributed to a decline in the rate of seriously delinquent mortgages (loans that are 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the metropolitan area. After peaking at 5.7 percent in January 2010, the percentage of home loans that were seriously delinquent or had transitioned into REO status was 0.6 percent in January 2018, down from 0.8 percent a year earlier (CoreLogic, Inc.).

During the 12 months ending January 2018—

- Approximately 61,750 existing homes sold in the metropolitan area, virtually unchanged from a year earlier, but existing home prices were up 9 percent to an average of about $411,200 (CoreLogic, Inc., with adjustments by the analyst).
- New home sales increased 2 percent from a year earlier to approximately 8,775 homes sold, but new home prices were up less than 1 percent to about $512,700. Single-family prices averaged $536,100, up 2 percent from a year earlier, but prices for new condominiums and townhomes averaged $422,500, down 5 percent from a year earlier, in part because of an increase in sales of lower-priced units.
- Colorado amended its condominium defects law to reduce construction-related lawsuits. Builders argued the previous law increased their liabilities and insurance costs to the point that construction was feasible only at higher price points. Sales of new condominiums and townhomes priced below $400,000 in the metropolitan area increased modestly from about 800 units in 2016 to 925 units in 2017.

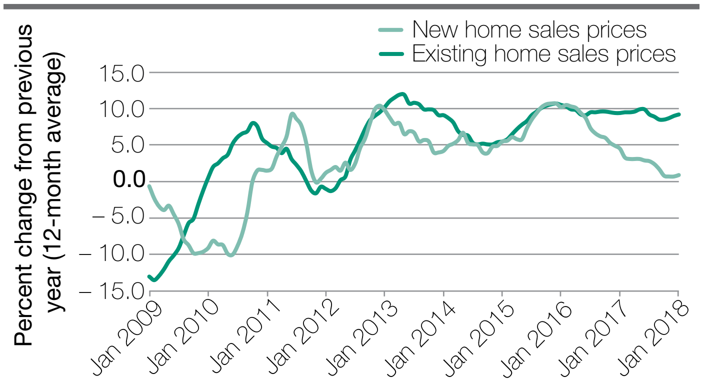
continued on page 4

continued from page 3

Single-family construction activity in the metropolitan area, as measured by the number of homes permitted, more than tripled during the past 6 years to an average of nearly 10,600 homes a year in 2016 and 2017, but homebuilding remains well below its previous peak.

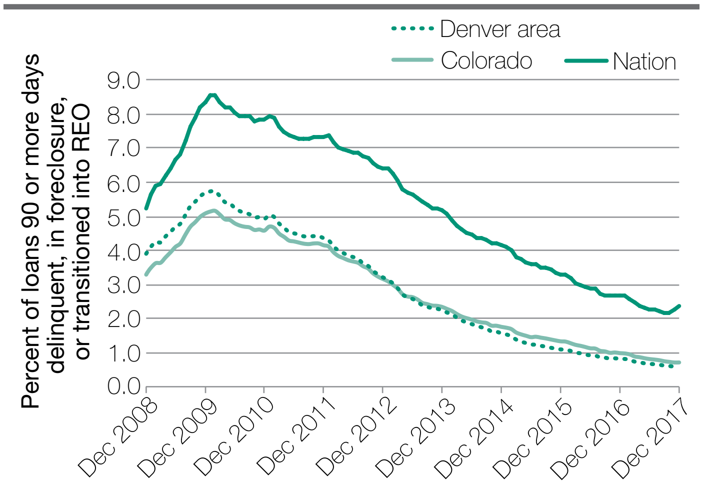
- Approximately 11,200 single-family homes were permitted in the metropolitan area during the 12 months ending January 2018, up 10 percent from a year earlier (preliminary data). Single-family permitting previously peaked at nearly 18,200 homes a year during 2004 and 2005, before declining to an average of less than 3,500 homes a year from 2008 through 2011.

Growth in new home prices in the Denver area slowed during the past 2 years, but existing homes maintained nearly double-digit price appreciation.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

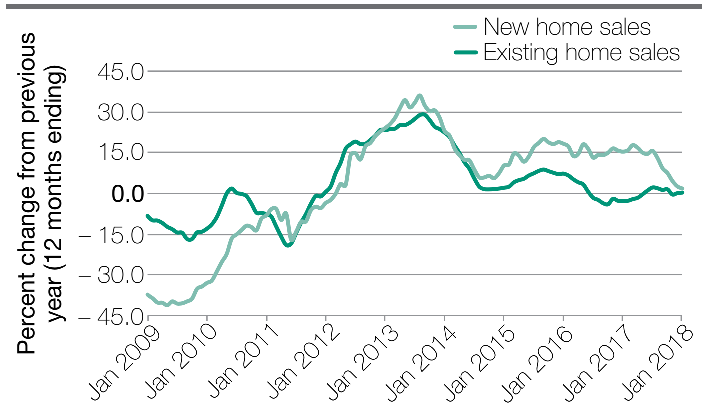
In the past 2 years, the rate of seriously delinquent mortgages and REO properties in the Denver area was less than one-third the national average rate.



REO = real estate owned.
Source: CoreLogic, Inc.

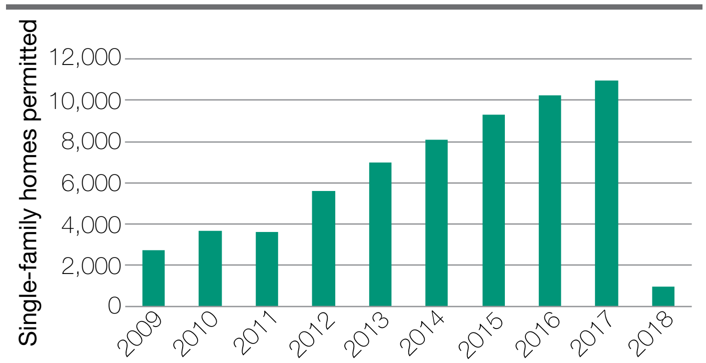
- The most active areas for recent single-family construction have been in Adams and Douglas Counties. New homes in Buffalo Highlands, a subdivision in Adams County, range in price from about $380,000 to $425,000, and Sterling Ranch in Douglas County has new homes ranging in price from $445,000 to $750,000.
- Builders cite construction worker shortages and a low supply of vacant developed lots as factors constraining homebuilding. The number of available lots decreased in the past 4 years from about 28,100 in the fourth quarter of 2013—representing a 27-month supply—to about 26,900 in the fourth quarter of 2017—representing less than a 17-month supply at the current sales rate.

New home sales in the Denver area have increased every year since 2012, but growth in existing sales has been hindered by a low supply of listings during the past 2 years.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

Single-family permitting increased steadily during the past 6 years in the Denver area, but the supply of new homes continued to lag behind the growth in demand.



Note: Includes preliminary data from January 2017 through January 2018.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

The apartment market in the Denver metropolitan area is currently balanced. Conditions were generally tight during 2013 through 2015, as demand outpaced construction, and the apartment vacancy rate usually remained below 4.5 percent, but market conditions eased as more than 9,900 units a year were completed in the metropolitan area during 2016 and 2017, more than double the average yearly completions from 2010 through 2015 (*Apartment Insights*). Recent absorption has been strong, averaging nearly 6,500 units a year in 2016 and 2017 compared with an average of less than 4,500 units annually during the previous 5 years, but as the strong pace of completions continues, some parts of the metropolitan area are at risk of overbuilding. Within Denver County, nearly 4,800 units a year were completed in 2016 and 2017, up from 2,500 units a year during 2010 through 2015. The increased supply has led to slower rent growth; however, the rent increases continue to outpace income growth in the metropolitan area.

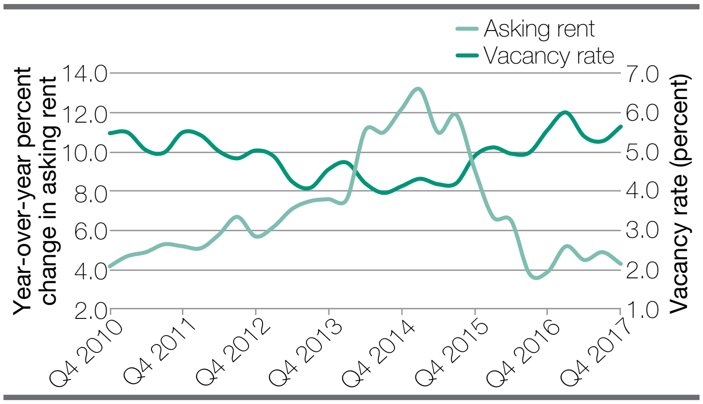
During the fourth quarter of 2017—

- Apartment rents in the metropolitan area averaged $1,370, up 4.3 percent from a year earlier (*Apartment Insights*). By comparison, from 2013 through 2015, when market conditions were tighter, rent growth averaged nearly 10 percent a year.
- The vacancy rate among stabilized apartment properties in the metropolitan area averaged 5.7 percent, up from 5.6 percent a year earlier and up from a recent low of 4.0 percent in the fourth quarter of 2014. If properties in lease up are included, however, the vacancy rate was 10.6 percent, up from 8.8 percent a year earlier.
- Market conditions eased significantly in Denver County, where vacancies (including properties in lease up) averaged 12.0 percent, up from 11.2 percent a year earlier. By comparison, suburban areas to the southeast (including Arapahoe and Douglas Counties) and northwest (including Adams, Broomfield, and Jefferson Counties) had vacancy rates of 10.6 and 9.2 percent, respectively, up from 7.5 percent in both areas a year earlier.

Despite softer apartment market conditions, the pace of multifamily construction activity remains strong. An average of about 11,350 units a year were permitted in the metropolitan area during 2016 and 2017, up from 8,350 units during the previous 4 years; however, construction worker shortages have delayed the completion of many of the projects permitted in the past 2 years.

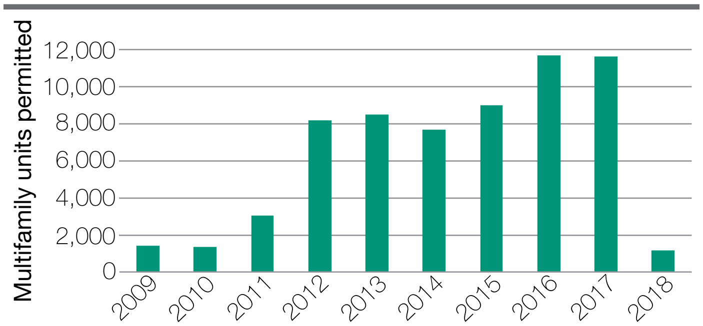
- During the 12 months ending January 2018, approximately 11,950 multifamily units were permitted in the metropolitan area, up 7 percent from a year earlier (preliminary data). Two-thirds of the metropolitan area total, or about 7,900 units, were in Denver County, a 23-percent increase from a year earlier.
- About one-third of the projects scheduled for completion in 2017, with nearly 6,200 units, were postponed to 2018. As a result, the number of units under construction has steadily increased in the past 2 years, even as completions leveled off at less than 10,000 units annually. Approximately 29,100 units were under construction in the metropolitan area in the fourth quarter of 2017, up from 23,400 units a year earlier (*Apartment Insights*).
- In Denver County, nearly 18,700 units were under way in the fourth quarter of 2017, up from 13,400 units a year earlier. The units under construction in Denver County represent nearly 4 years of supply at the current rate of absorption.
- A recently completed project near downtown Denver was the 372-unit Alexan Uptown Apartments, which offers studio, one-bedroom, and two-bedroom apartments with rents starting at approximately $1,475, $1,785, and $2,385, respectively.

A surge in apartment completions in the Denver area during the past 2 years led to higher vacancies and slower rent growth.



Q4 = fourth quarter.
Source: *Apartment Insights*

Apartment construction in the Denver area has been strong since 2012, and permitting of new units accelerated in the past 2 years.



Note: Includes preliminary data from January 2017 through January 2018.
Source: U.S. Census Bureau, Building Permits Survey