

Panelist/Moderator



Mathew Leprino

Broker/Owner

Leprino Home

***Official Spokesperson for the
Colorado Association of
REALTORS***

Denver Metropolitan Region Real Estate Market and 2018 Forecast

Matthew Leprino

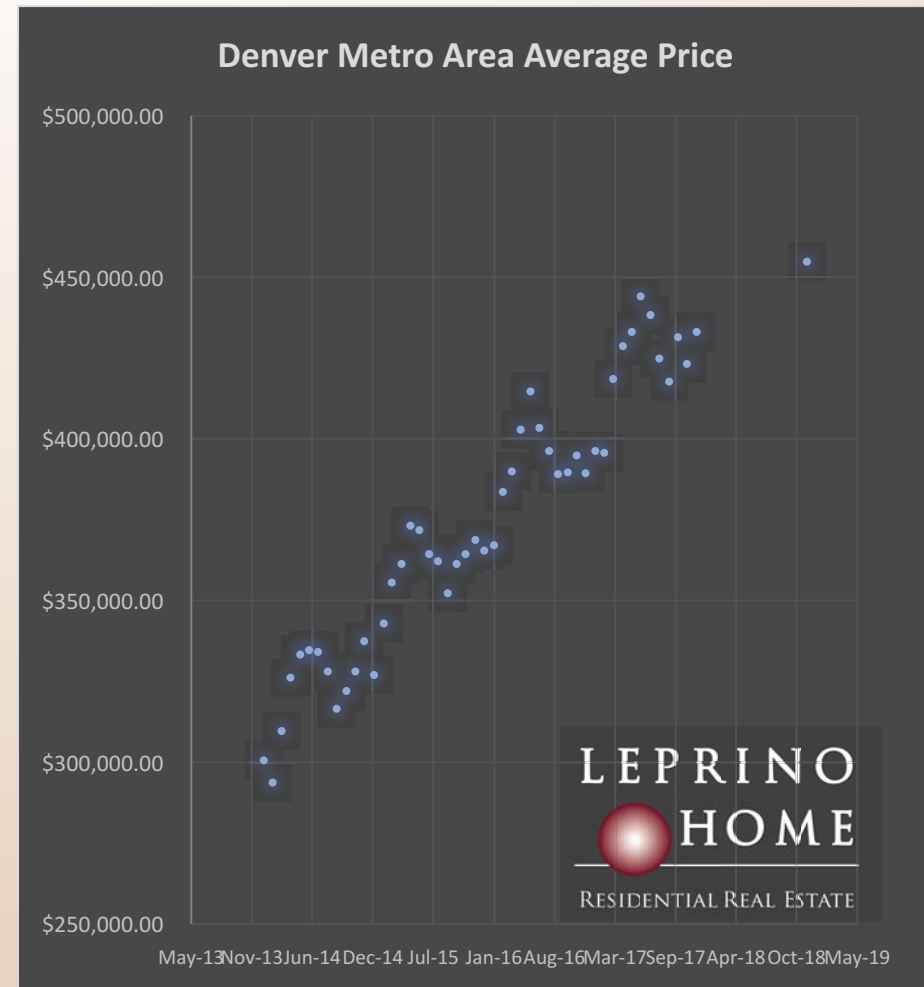
- Broker / Owner Leprino Home
- Central District Director – Denver Metro Association of Realtors®
- Member – Colorado Association of Realtors® Market Trends Research Group

So what challenges does 2018 bring, and which 2017 are we bringing with us?

- ✓ Apartment Buildings – Big *and* Small
- ✓ Net Migration / Population Growth
 - ✓ *Amazon?*
- ✓ Changing Neighborhood Demographics
- ✓ Inventory (supply and demand)
- ✓ Legislation
 - ✓ *Anti-Growth Initiatives*
 - ✓ *Green Roofs*

First, the most recent numbers – December 2017:

- **Average Price**
 - **\$432,976**
 - \$389,268 IN DECEMBER 2016
- **Average DOM**
 - **36**
 - 35 IN DECEMBER 2016
- **Month's Supply**
 - **1.1**
 - 1.8 IN DECEMBER 2016
- **Active Listings**
 - **6,304**
 - 9,066 IN DECEMBER 2016
- **New Listings**
 - **2,869**
 - 2,808 IN DECEMBER 2016



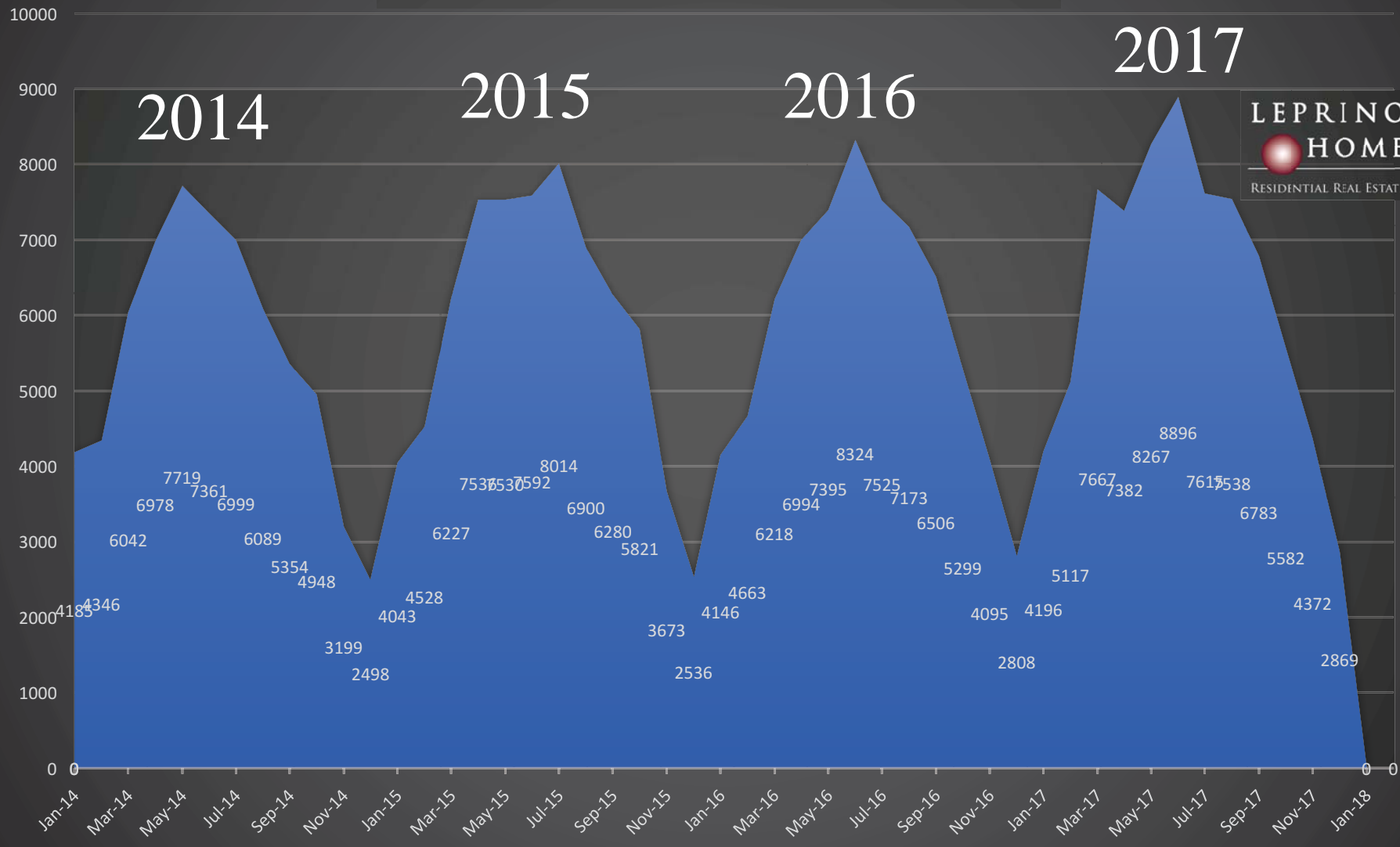
Data from the Colorado Association of Realtors' Metro Region Report

In 2018, the challenges we face aren't 100% due to inventory

- **Once inventory goes up, are we cured?**
 - MY ANALYSIS IS THAT INVENTORY ISN'T THE ONLY ISSUE, IT'S THE DEMAND RULING THE SUPPLY
- **From 2014-2017, New Listings have risen in:**
 - December from 2498 to 2869
 - July from 6999 to 7615

What *is* different, is that the number of people living in Denver is outpacing construction – Property *is* being built, just not enough of it.

New Residential Listings to the Market



Data from the Colorado Association of Realtors' Metro Region Report

So, what's this all about?

- **Rents play a part**
 - They're going up, but still not as bad as other major cities
- **Migration to Denver plays a part**
 - Are people trying on before they buy?
- **The price increases play a big part**
 - "I'll just wait until prices go back down"
- **Newer, shinier apartments vs. comparably priced (Per month) houses play a part**
 - If you're 25, would you rather the sexy urban dwelling or the house that needs a new kitchen 5 miles away from the bars and shops?
- **Fear of playing 'the game' plays a part.**
 - WE need to curb those thoughts that buying a house = 20 multiple offers and impossible to beat waivers and clauses.

Rentals and Development of Rental Property

- **Rents in the Denver Metro Area are up 15.1% in 2017 over 2016.**
 - We are now the 18th most expensive rental market in the Nation
 - 4th most expensive with other Amazon Contenders... more to come.
 - 1 Bedroom Average is now \$1,370
 - 2 Bedroom Average is now \$1,810
 - The St. Paul Collection renting for as high as \$18,000 per month.
- **Experts say that 6% Vacancy is the magic number which determines rent going up or down.**
 - Q2 2017 saw 5%
 - Q3 2017 saw 5.7%
 - Q4 2017 ???

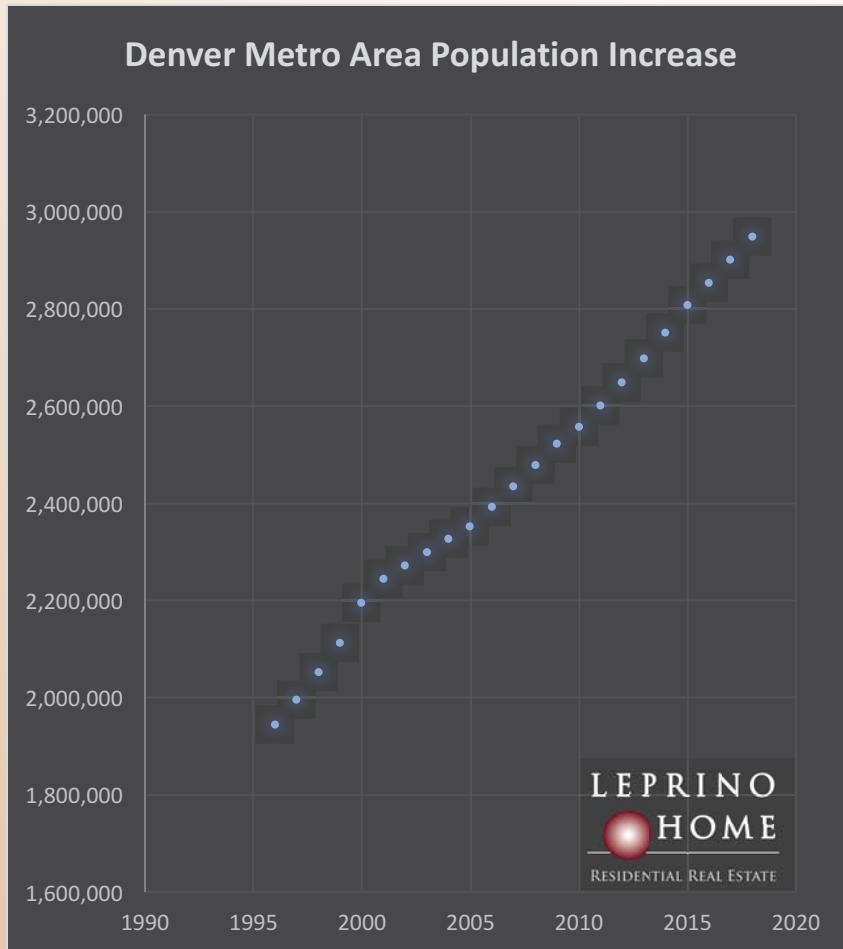
Source: zumper.com

Rentals

- **So why? All the ‘rent’ talk?**
 - **In 2016 and 2017, condo construction accounted for only 6.7% of residential home building in the Denver area.**
 - **The end of 2007: 26%!**
 - **Rentals are key moving in to 2018 and 2019 because condos, though it looked promising after construction litigation reform, remains on life support.**



Population Growth - Metro



- **Since 1995, the Denver Metro will have grown by 1 million.**
 - That's nearly 50%!
- **In the last four years, we have grown by 197,198**
 - That's 7%!
- **Estimates call for of 3.2 Million in 2018 for the Denver Metro Area**

Data: State of Colorado Department of Local Affairs

The Amazon Effect

- Confidence isn't high, but the possibility remains!
- Governor's Statement:
"There will be a sense of relief if they choose somewhere else, because there are a lot of challenges and lot of hard work we will be avoiding."
-Denver Post
- Denver is in the top **20 out of 238** applications
- Amazon promises to bring 50,000 "high-paying" jobs and a \$5B economic impact
- Other major cities in the running: **Chicago, Dallas, LA, DC.**
- Seattle HQ1 currently employs 40,000
 - Amazon says growth will be over 10-15 years and not immediate
- So where would they go? Airport Rumors

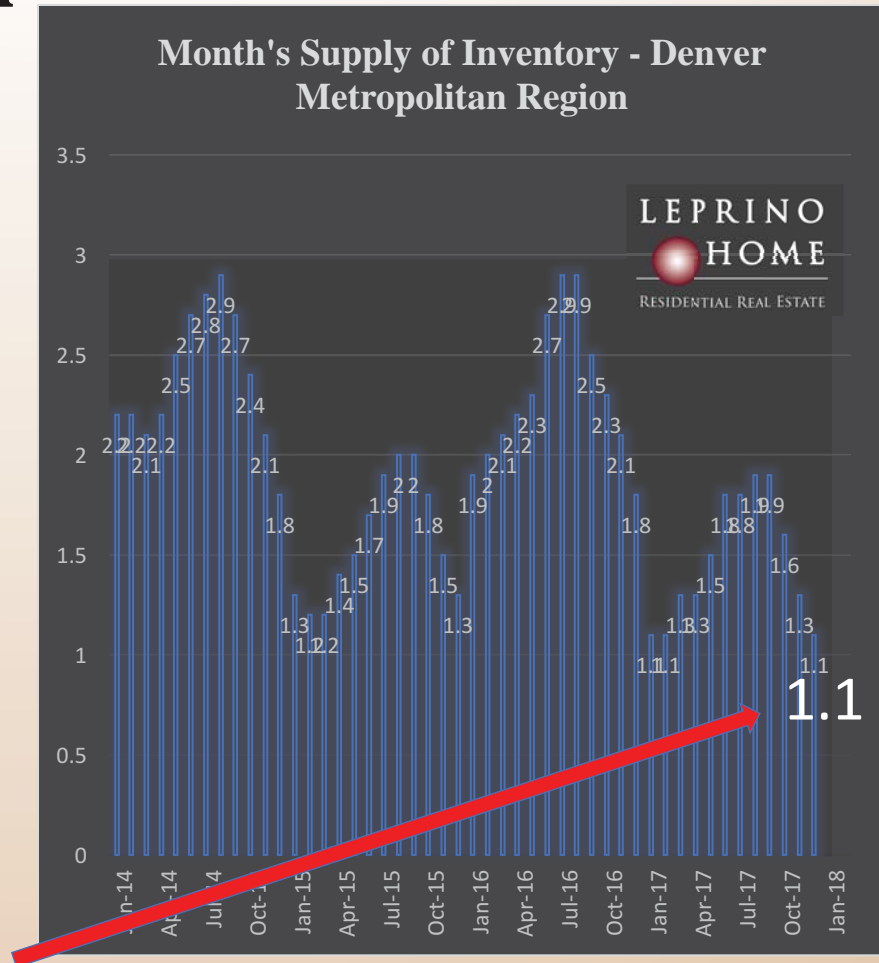
Inventory

- July of 2006 saw an **all-time high** of 31,989 active homes in the Metro Area.
- December of 2017 saw an **all-time low** of 3,854 active.
- we haven't seen a balanced market (*4 months worth of inventory*) since 2012
- In 2017 there were 4 homes that sold above \$1000/foot (non acreage).



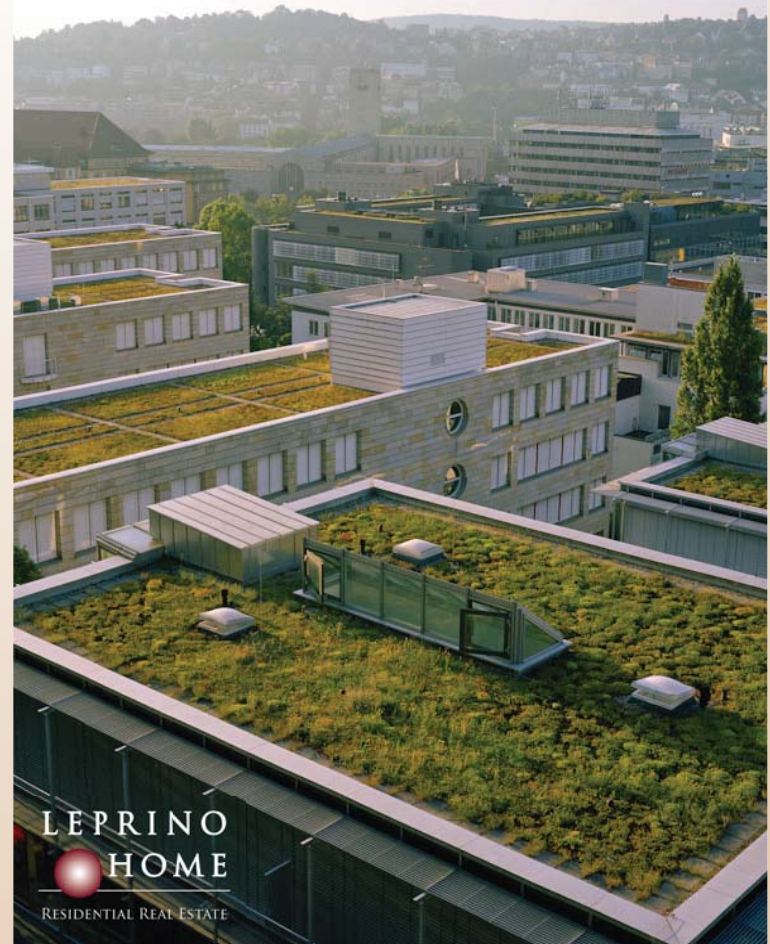
Inventory

- **Yearly Residential Real Estate Sales Volume in the Denver Metro**
 - 1990 \$2,400,000,000
 - 2017 \$25,080,000,000
- **According to NAR in 11/2017 Inventory of existing homes for sale hit a record low of 3.4 months.**
 - Prior record was set at 3.5 in January of 2017 and January of 2005
 - January 2018 is expected to set a new record at 3.0



The Green Roof Initiative

- All new buildings of **25,000sf or larger** must now devote a portion of their roofs to gardens and other green coverings that will absorb rainfall and reduce heat.
- *“Denver will now have the nation’s most stringent, far-reaching mandate for rooftop gardens”*
 - The Denver Post
- Requires between 20 and 60% of available roof space to be dedicated to vegetation and or solar (not less than 30% green)
- Residential, Commercial and Industrial all have different rules.
- Residential buildings less than 4 stories or 50’ (whichever is greater) are exempt



The Green Roof Initiative

- **11,000 vote spread- Passed at 54.3%**
- **Cannot change or modify until 6 months after the election – May**
 - Any changes must be approved by a 2/3 (super) majority.
 - Full Repeal “unlikely.”
- **Currently there is no financial hardship exemption**
 - Cash-strapped HOAS?
- Estimates are at \$25-\$35 per foot to install green roof vs. \$4-5.55 for typical torch-down.*
- **% coverage based on gross floor area**
 - Same for a Skyscraper or a Commercial Warehouse

*Source: remodelingxpense.com

Proposed changes

- **Commercial**

- Would apply to New Buildings Only
- Additions which bring Gross Floor Area above 25,000SF must apply to the new section only
 - 24,500SF building with a 1,000SF addition would only require percentage to apply to 1,000 not 25,500SF

- **Industrial**

- 10% coverage OR 25,000SF max. Amazon's Aurora Distribution facility at 1M SF would be 25K not 250K coverage.

So what are your RPAC Dollars doing about it?

Potential Exemptions

- Additions, alterations, repairs to existing buildings (non-industrial)
- Structural Demands
Should a percentage of the roof be deemed unsuitable for a green roof without major structural alteration, than the percentage that CAN support it would be counted.
- Pre 2018 Construction Permits without Final

Potential Variances

- Slope Considerations – as measured from the street
- Historic Structures requiring major structural changes to comply
- Recreational uses on roof which prohibit adoption
- If granted, a \$25/sf cash-in-lieu could be paid.

Anti-Growth Initiatives across our State / Denver

“The growth rate of Colorado is nearly twice the national population increase” – December’s Report of U.S. Census Bureau

- Proposed Statewide Limited Growth Initiative:
 - 1% Cap on housing units
 - *COULD include remodels and scrapes*
 - Nothing can be changed or altered until 2022

Similar Measures:

- **Arvada**
 - Multi-family
- **Greenwood Village**
 - Residents rejected a plan that would have allowed construction of a mixed-use retail at Orchard Light Rail Station due to concerns.
- **Lakewood**
 - Attained a 1 vote majority in City’s “Slow Growth” movement, likely to limit growth moving forward.

The Legislative Solution

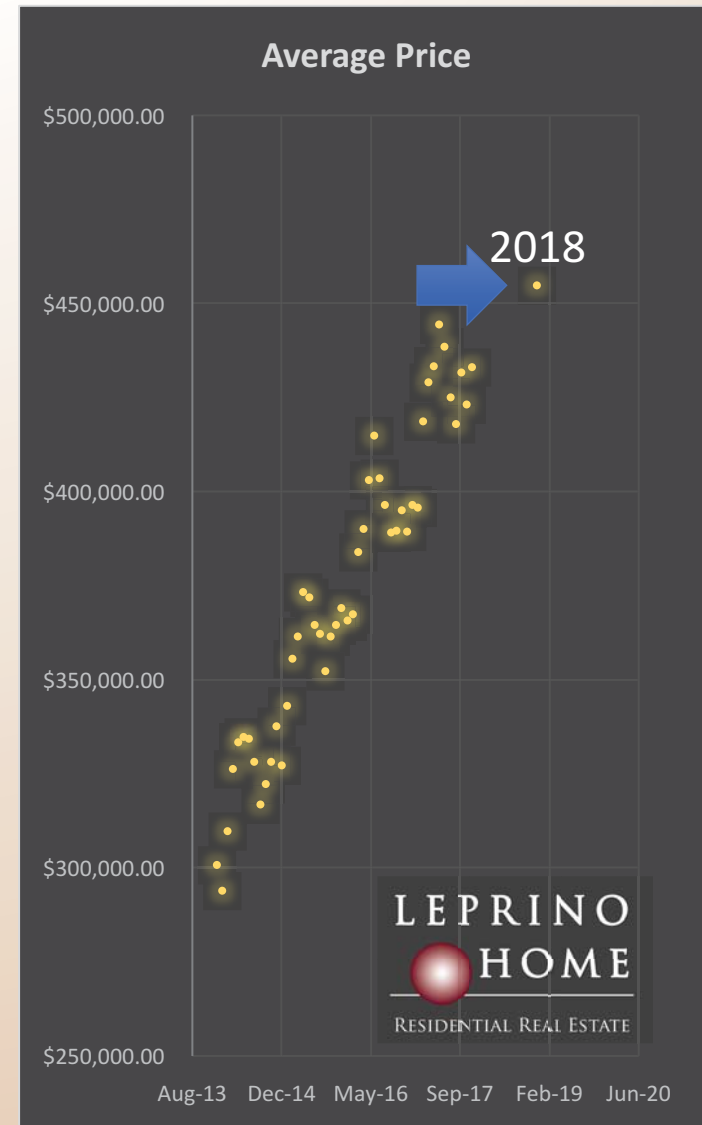
- **Invest in RPAC!**
 - The only way to beat economic nuclear devices such as a 1% growth cap is to support the fight against it
 - Understand the overall impact that lack of condominium production and smaller houses is having

As REALTORS® we are the voice of the industry!



My Predictions

- **Prices wont rise nearly as quickly as they have in previous years**
 - The trend continues, just slower
- **Construction of much needed Condos will continue to under perform**
 - But small SFR will begin to increase
- **Rising interest rates will affect all financed buyers, and sellers eventually**
- **Rents will begin to drop and therefore incentives will begin to rise.**
 - Occupancy could increase, rents will rise, rentals will be less desirable in 2019 than today
- **Days on Market will dip lower than previous years but only by a day or**



My Predictions

- The number of homes coming to the market is on the rise
- The reason “Active Listings” are decreasing and therefore, we have an inventory shortage is not the number of homes coming on the market, its that **supply is *no where near* demand.**
 - Developers see the opportunity and are beginning to respond.
 - “Wee Cottage” or “Gnome Home” AKA 1900, 1920, 1950 Structures.
 - Condos in 2019+ once the Green Roof, ‘Growth’ dust settles?
 - The solution isn’t exactly “tiny homes,” but rather the return to modest structure size.

Matthew Leprino

303-482-1299

matthew@leprinohome.com

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Introducing Mike Budd...

