

Denver-Aurora-Broomfield, Colorado

HUD Region VIII

(U.S. Housing Market Conditions Report – September 2010)

The Denver-Aurora-Broomfield metropolitan area encompasses 10 counties in north-central Colorado. The urbanized area extends north from Castle Rock in Douglas County along the east side of the Rocky Mountain range to the city of Thornton in Adams County. The city of Denver, the state capital, is a hub for government activities and financial services. The area is also a regional center for energy development, employing more than 26,000 energy-related workers. The leading private sector employers, each with more than 8,000 workers, include HCA-HealthOne, LLC, Qwest Communications International, Inc., and Lockheed Martin Corporation. As of October 1, 2010, the population of the metropolitan area was estimated at 2.57 million. Because of slower in-migration during the past 2 years, population growth has slowed to 1.5 percent a year compared with an increase of 3 percent annually recorded from 2005 through 2007.

Employment levels in the Denver-Aurora-Broomfield area continued a 2-year decline during the past 12 months. During the 12 months ending August 2010, nonfarm payrolls decreased by 43,400 jobs, or 3.7 percent, to an average of 1,181,000 jobs compared with the 2.4-percent decrease in payrolls during the previous 12 months. During the most recent 12-month period, construction employment was down 13.5 percent, or 11,100 jobs, because of weak housing and commercial real estate markets. The manufacturing sector declined by 5,100 jobs, or 7.9 percent, because of lower demand for goods. Despite the recent declines, some offsetting gains occurred in the education and health services sector, which gained 3,400 jobs, or 2.5 percent. The opening of the 80-bed Rocky Mountain Hospital for Children in Denver added 300 jobs to the education and health services sector during the period. The unemployment rate for the 12 months ending August 2010 averaged 7.9 percent, up from 7.3 percent a year earlier.

Because of the weak economy and falling oil and natural gas prices, 3,000 energy-related jobs were lost during the first 8 months of 2010 compared with the number lost during the same period a year earlier. Offsetting some of these losses were major renewable energy projects, including the construction of a \$1 billion ConocoPhillips Company renewable energy research and training center near Denver. Although construction began in 2008, plans to fully develop the center have been slowed because of the weak economy. The first phase of the center is expected to open in 2013, and the entire center will eventually employ an estimated 7,000 workers when completed by 2030. In 2009, Vestas Wind Systems A/S, located in Brighton, completed a wind-turbine manufacturing plant. The plant currently employs 1,400 workers and has customers worldwide.

Home sales market conditions in the Denver-Aurora-Broomfield area were soft during the 12 months ending August 2010. Recent job losses and tight lending standards combined to reduce the demand for homes. Hanley Wood, LLC, reported that, during the 12 months ending August 2010, sales of existing attached and single-family homes were down 9 percent to 26,200 homes compared with the 28,500 homes sold during the previous 12 months. In August 2010, because of slower sales, the inventory of

unsold homes increased to 24,000 homes, up to a 7-month supply, which was a 17-percent increase from the inventory a year earlier. The average price for existing single-family homes increased by 7 percent to \$283,300, and the average price for attached homes was unchanged at \$178,800. According to Lender Processing Services Mortgage Performance Data for August 2010, 5.6 percent of total loans in the metropolitan area were 90 days or more delinquent, in foreclosure, or REO (Real Estate Owned), up from 4.6 percent in August 2009.

Hanley Wood, LLC, reported that, during the 12 months ending August 2010, sales of new single-family homes decreased by 15 percent to nearly 4,000 units, and the average sales price for a new home was down nearly 5 percent to \$345,800. During the 12 months ending August 2010, sales of new condominiums and townhomes declined 56 percent to 570 units sold. During the same period, attached home sales accounted for 25 percent of all home sales, and the average sales price for new attached homes increased by more than 6 percent to \$196,000.

In response to the soft housing market, single-family home construction in the metropolitan area remained well below the 2004-to-2006 peak period, when an average of 17,500 homes were permitted annually. Based on preliminary data, during the 12 months ending August 2010, the number of single-family permits issued increased by 38 percent to 3,590 homes compared with the number permitted a year earlier, although the current number is still well below earlier levels. Stapleton Denver, located on the former international airport site, is one of the largest urban infill housing developments in the nation. Construction began in 2001 and approximately 4,000 of the 8,000 homes planned for the development have been built. Prices for new single-family, three-bedroom homes start at \$250,000. The 41-story Spire building, located in the downtown Denver area, is the largest recent condominium development in the metropolitan area. Prices in the 503-unit project, which was completed in November 2009, start at \$200,000 for studio units and increase to more than \$1 million for penthouse units.

Rental market conditions in the Denver-Aurora-Broomfield metropolitan area have improved from the soft-to-balanced conditions of the past 3 years, and conditions during the 12-month period ending August 2010 were somewhat tight. According to Apartment Appraisers & Consultants, in the third quarter of 2010 survey, the average apartment vacancy rate fell to 5.4 percent compared with a recent high of 8.3 percent in the third quarter of 2009. According to the survey, average asking apartment rents are \$690 for a one-bedroom unit, \$870 for a two-bedroom unit, and \$1,150 for a three-bedroom unit. Overall, the average effective rent is \$830, a nearly 7-percent increase from a year earlier. During the past 12 months, the market has tightened despite the approximately 3,000 apartment units that entered the market. Absorption has been strong because of population growth and more stringent financing standards that have directed potential homebuyers to the apartment market. With few apartments starting construction in 2009 and 2010, rental market conditions are expected to continue to tighten during the next 12 months.

Multifamily building activity, as measured by the number of units permitted, continued to decline in the Denver-Aurora-Broomfield metropolitan area during the past 12 months. According to preliminary data, during the 12 months ending August 2010, the number of multifamily units permitted decreased by 52

percent to 760 units. By contrast, 5,400 multifamily units were permitted annually from 2006 through 2008 and apartments accounted for 45 percent of the average number permitted. For the 12 months ending August 2010, apartments accounted for 80 percent of the multifamily units permitted. Of the 1,500 multifamily units currently under construction, approximately 90 percent are located in transit-oriented developments near rail stations that serve the existing 35-mile light-rail network. An additional 40 miles of light-rail track are currently under construction or in the planning stage; the entire system is expected to be completed by 2018 at a cost of approximately \$7 billion. The centerpiece of this expansion is a \$500 million multimodal project at Union Station in downtown Denver and a \$1.3 billion light-rail line to Denver International Airport. According to local sources, the building of the station and airport line is the largest transportation redevelopment project currently under construction in the nation.