

Market Update

Northern Colorado has even more room to grow

“Is the apartment market overbuilt?”
 “The apartment market must be overbuilt.”
 I hear these questions and statements on a regular basis. Despite concerns from media outlets, casual observers and many longtime residents who aren’t used to seeing this many units under construction in Northern Colorado, I believe the answer is still “No, our market is not overbuilt.”

Not only is the market not overbuilt, but also there are a number of recent indicators to suggest the apartment market in Northern Colorado is as strong as it has been in the last 18 to 24 months.

First and foremost, the demand for additional apartment units is high given the continued strong population and employment growth in the region. For instance, while net migration as a percentage of population was 0.8 percent in Colorado as a whole in 2017, in Larimer County it was significantly higher at 1.2 percent, according to the U.S. Census Bureau. Additionally, over the past year, while employment growth in the state was 2.4 percent, employment growth in Fort Collins was 2.9 percent, according to the U.S. Bureau of Labor Statistics. This strong population and employment growth is translating into very strong absorption for new communities in the region, with some communities experiencing absorption of approximately 10 to 15 percent of the total units within the community each month over the past several months.

The spring and summer generally are the prime leasing seasons, but this is impressive leasing velocity even for spring, especially considering that there



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are approximately 1,000 units in Class A, institutional scale/quality, market-rate communities in Fort Collins and Loveland currently in the lease-up phase.

The other important side of the equation, of course, is supply of new apartment units. While there are more units under construction and in some phase of plan-

ning/entitlement than there have been in this cycle, entitlement and construction timelines are longer than they’ve been in the past given the number of projects being processed in many of the municipalities and the shortage of construction labor. This delays delivery of new units, which serves to create an environment where it is not likely that thousands of units are in lease up at once. Additionally, with construction costs continuing to rise, development impact fees, tap fees and raw water costs rising in a number of municipalities/districts and interest rates rising, there are headwinds that may make proposed projects that are not in the most-desirable locations – or projects that started with thin margins – less viable than they were when the developer began working on entitlements. This may further serve to delay, or reduce, unit deliveries. If that is the case, however, with the strong demand, rising home values and rising interest rates (which may cause some would-be homebuyers to remain renters for the foreseeable future), we may see



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The Gateway at 2543 in Johnstown is just one of the many new apartment communities in Northern Colorado.

rents begin to increase at a faster pace than they have over the past few years, which in turn may serve to make some of the projects that would otherwise be less viable with the cost increases, viable again.

With respect to monthly rents, the year-over-year growth in the Class A, institutional scale/quality market in the Fort Collins/Loveland market was just over 3 percent. Some of this growth is due to several older communities beginning to renovate and update units and amenities, which speaks to the strength of the market from the property owners’ perspective. But some of the rent growth also is due to a tight market with high occupancy, approximately 97 percent. The occupancy rate in the Fort Collins/Loveland market is the highest since April 2016. The Greeley/Evans market for large communities experienced impressive monthly

rent growth of over 8 percent year over year and the occupancy increased from just over 95 percent to nearly 99 percent over the same time period. The occupancy rate in the Greeley/Evans market is the highest since October 2015, according to our April 2018 Apartment Market Report.

With the continued population and employment growth in the region driving demand for new units, the strong fundamentals in the apartment market and the challenges that some developers are facing with rising costs for less-desirable sites, I expect to continue to see impressive absorption of the communities that are in lease up and under construction. I also anticipate seeing high-quality proposed projects, in desirable locations, continue coming out of the ground. And, no, the apartment market in Northern Colorado is not overbuilt. ▲



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