

# REPORT SUMMARY

## OVERVIEW

The metropolitan Denver area apartment vacancy rate increased to 6.5 percent for the third quarter of 2008, up from 6.2 percent for the second quarter of 2008. For the third quarter of 2007 it was 5.3 percent, and for the third quarter of 2006 it was 6.7 percent. The vacancy rate for the third quarter of 2005 was 7.7 percent. Four counties showed an increase in their vacancy rates, while two showed a decrease. Twenty-one market areas showed an increase, while fifteen showed a decrease, with one remaining stable.

## VACANCIES

Buildings with “200 to 349” units had the highest vacancy rate at 6.9 percent, up from 6.3 for the second quarter. Buildings with “100 to 199” units had the lowest vacancy at 5.2 percent, same as for the previous quarter. The “350 up” building size had a 6.5 percent vacancy, while the “up to 8” building size had 5.9 percent vacant compared to the “9 to 50” building size which had 6.1 percent vacant. Historically, larger buildings have the highest vacancy rates. Buildings constructed since 2005 had 17.2 percent vacant, up from 12.7 percent. Buildings constructed from 1950 – 1959 had 7.6 vacant, down from 8.3 for the second quarter. Those constructed from 1990 to 1999 had 5.6 percent vacant, down from 6.2 for the second quarter, while buildings constructed between 2000 and 2004 had 6.2 percent vacant, down from 6.4 percent. Buildings constructed between 1960 and 1969 had a vacancy rate of 5.1 percent; those constructed between 1980 and 1989 had 6.3 percent; those built between 1970 and 1979, 6.9 percent vacant. Apartment units “above 1000” square feet had the highest vacancy rate at 7.0 percent. Those with “500 to 749” square feet had 5.9 percent vacant, while units with “750 to 999” had 6.6 percent vacant, and those “499 and below” square feet had 6.1 percent vacant. Efficiencies had 6.0 percent vacant; one-bedroom, 5.9 percent; two-bedroom, one bath, 6.8 percent; two-bedroom, two bath, 7.0 percent; and three bedroom, 7.7 percent.

## RENTAL RATES

The average rental rate increased to \$892.22 for the third quarter of 2008, up from \$886.14 for the second quarter of 2008, and up from \$858.36 for the third quarter of 2007. For the third quarter of 2006 it was \$865.76, and \$845.83 for the third quarter of 2005. Average rents do not include the cost of rental discounts and concessions. For the third quarter of 2008, that averaged 12.3 percent, up from 12.1 percent for the previous quarter. Units constructed since 2005 averaged \$1,314.90; between 2000-2004, \$1,054.74; 1990-1999, \$1,062.50; 1980-1989, \$818.55; 1970-1979, \$696.27; 1960-1969, \$709.73; and 1959 and prior, \$700.75. By building size, highest rents are in buildings/complexes with “200-349” units, \$945.78; and lowest in buildings with “2 to 8” units, \$662.93. Rent per square foot increased to \$1.05. For the third quarter of 2007, it was \$1.01, and \$1.02 for the second quarter of 2006. The highest rent per square foot was for those units “Below 500” square feet, \$1.30, and rents were lowest for units having “1,000 and above” square feet, \$1.00. Median rents increased to \$841.81 for the third quarter of 2008, up from \$833.75 for the second quarter of 2008. For the third quarter of 2007, median rents were \$813.88, and \$826.24 for the third quarter of 2006.

## **ECONOMIC VACANCY**

The overall economic vacancy rate for the second quarter was 18.8 percent, up from 18.3 percent for the second quarter of 2008. It was 17.3 percent for the third quarter of 2007. For the third quarter of 2006, it was 23.1 percent; and for the third quarter of 2005, it was 24.9 percent. Economic vacancy is defined as vacancy plus concessions and discounts as a percent of gross potential rent.

## **NEW ADDITIONS**

Approximately 1,605 new units were added to the multi-family rental inventory during the third quarter of 2008. There are about 284,311 apartment units in the seven-county metro Denver area. For the third quarter 2008, there was a net positive absorption of 653 units for the metropolitan Denver area. Absorption is the net change in the number of apartment units rented in the current time period (quarter/year) compared to the previous time period. For the third quarter of 2008 there was a net positive absorption of 3,083 units. For the third quarter (month of August), the monthly turnover rate was 6.2 percent. For the third quarter of 2007, it was also 6.2 percent.

## **OVERALL COMMENTS**

Given the number of new additions to the inventory for over three years, and especially the last quarter; the concerns with the overall national and metro Denver area economy; and issues in the single-family ownership sector, the increase in the vacancy rate was expected. However, historically there is a downward movement in the vacancy rate during the second and third quarters of the year. The number of new units to be added to the inventory during 2008 will be comparable to the low number of additions the last two years. The overall average rent for the last five years has increased from around \$800.00 in 2002 to slightly over \$890.00 this quarter.

The Denver Area Apartment Vacancy and Rent Survey reports averages, and, as a result, there are often differences in rental rates and vacancy rates by apartment type, size, location, and age of building/complex. These variances are more pronounced as the vacancy rate has fluctuated during the last four years. All information is based on data received for the month of September, except for resident turnover and rental losses, which is for August. The Survey is conducted via mail and online submissions. It includes only those units with a certificate of occupancy. The Second Quarter 2008 Survey includes information on 105,256 apartment units.

The Survey is possible because of the excellent participation and help of professionals in the apartment industry and the consistent support of the Survey sponsors. Comments on the Survey are welcome (303-871-3435 or [gordon@vonstroh.com](mailto:gordon@vonstroh.com)).