

BUSINESS > REAL ESTATE

Metro Denver's housing market could find modesty in 2018

Home price gains and rent increases could flatten



Seth McConnell, The Denver Post

A house for sale on Corona Street in Northglenn on Sept. 22, 2016.

By **ALDO SVALDI** | asvaldi@denverpost.com | The Denver Post

December 31, 2017 at 12:13 am

After running hot for several years, metro Denver's housing market should turn in a more middling performance next year — but that won't necessarily be a bad thing.

“Our expectation is that 2018 may indeed be the year that home prices in metro Denver increase at about the same 5 percentish rate as the nation,” said Patty Silverstein, chief economist with Development Research Partners in Littleton.

While that is a “calming down” from the fast pace of increase over the past six years, home prices are still expected to rise faster than inflation, she said. Such newfound ordinariness will be as much a reflection of other markets heating up as Denver cooling down.

Zillow, the Seattle-based real estate portal, measured the rate of change in Denver home values in October — 6.5 percent — as falling below the U.S. annual increase — 7 percent — for the first time in a decade. It is calling for only a 3 percent gain in its home value index for metro Denver next year, below a 3.2 percent gain forecast nationally.

“Though still humming along, the Mile High City’s housing market came back down to earth in 2017,” said Zillow senior economist Aaron Terrazas. Just two years ago, metro Denver’s annual rate of appreciation on the Zillow home price index was 15.5 percent, three times faster than the U.S. rate.

Slower appreciation reflects imbalances in the mix of homes available for sale in the market. More than 60 percent of the homes on the market in Denver are in the top third of the price distribution, while just 15 percent are in the bottom third, according to Zillow.

Builders have concentrated much of their efforts on the top tier of homes, where a better balance of supply and demand has contributed to a slower appreciation rate this year of 5.4 percent.

But demand continues to greatly outstrip supply in the bottom third of the market. Even after years of strong gains in the lowest-priced tier of homes, appreciation is still running a robust 9.5 percent and the supply of homes available for sale is expected to remain tight.

“Overall, we expect 2018 in Denver’s housing market to be characterized by a continued divergence between the priciest communities and more affordable areas,” Terrazas said.

Changes in the tax code coming next year will add a twist and could work both ways — providing some consumers with more disposable income but also reducing the tax breaks available for those who buy higher-end homes.

“The tax reform bill should put more money in the pocket of the median buyer in 2018, though it could add additional pressure at the top of the market where buyers are more likely to rely on deductions that were curtailed in the law,” Terrazas said.

Only 14 percent of U.S. homes will carry a value high enough to make it worth taking advantage of the mortgage interest deduction under the changes, compared with 44 percent under the old rules, Zillow estimates.

Rising interest rates could also work against the market in 2018 by further reducing affordability. In 2017, mortgage rates were expected to rise but went lower or stayed flat much of the year.

One refrain often repeated is that the metro Denver region isn’t building enough homes to keep up with population gains. But Colorado’s [net migration is slowing](#), partly due to higher housing costs, which should allow builders more space to catch up.

Colorado builders are expected to pull 23,700 single-family permits in 2017 and 26,000 in 2018, according to the University of Colorado’s Colorado Business Economic Outlook.

While that looks robust compared with the sluggish pace of homebuilding seen after the recession, the CU forecast notes that builders pulled around 40,000 permits a year in 2004 and 2005, when there were 1 million fewer people living in the state.

Only a quarter of new home starts hitting the market in the third quarter were priced under \$400,000 and the average price of a detached new home is \$536,584, according to Metrostudy.

Assuming a 10 percent down payment and a 4 percent 30-year mortgage rate, a household would need to earn \$100,000 to qualify, according to Bankrate.com.

To keep costs in check, builders [have increasingly turned to townhomes](#), which accounted for 26 percent of the new homes added in the third quarter, the highest share on record. Condo construction is also expected to ramp up next year.



Oakwood Homes, one of the largest builders in the region, is returning to its roots with a greater focus on starter homes in its Green Valley Ranch and Reunion communities, spokeswoman Wendy Aiello said.

Multifamily developers, dominated by apartments, are expected to add 17,000 units this year and 17,400 in 2018. If that happens, it would be the third year of an unprecedented streak.

All that new supply is helping keep rents in check. ApartmentList estimates the median apartment rent in Denver is up only 1.6 percent this year. Rent gains are running hottest in Broomfield, at 5.8 percent, and are nearly flat in Englewood, at 0.8 percent.

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