

MULTIFAMILY PROPERTIES *Quarterly*

Market Update

Colorado Springs: Continued market strength

Colorado Spring's "cool" factor is on the upswing. The U.S. Olympic Museum and major projects at University of Colorado Colorado Springs are under construction. New downtown apartments and restaurants join the existing micro-brewery and hand-craft beer culture. A new downtown stadium and Colorado's first In-N-Out Burger have both been announced.

Furthermore, Colorado Springs is enjoying record job growth. In fact, since 2014, Colorado Springs has surpassed the threshold of new jobs needed to match population growth (approximately 5,400 new jobs). And this is with a state and local population growth rate that is roughly double that of the nation. This high population growth, mostly from in-migration of educated professionals, has fueled apartment rent growth and new construction. Colorado Springs appears to be absorbing the growth in new units. The Department of Housing and Urban Development's latest report says that Colorado Springs multifamily market is "balanced." Due to all these factors, the Colorado Springs multifamily market continues to attract acquisitions from large-market investors from all over the country. These investors see Colorado Springs as a growth market, still with much potential. This market also is a "safe haven" from the risks of overbuilt apartment markets in other high-growth regions and seemingly overheated stock markets.

• Forecast. Investor interest will continue to focus on Colorado Springs apartments due to weakening rental markets in Denver, Fort Collins, Loveland and Greeley. Denver apartment rents are at the slowest rate of growth in eight years. Colorado Spring's rental rates remain affordable by comparison and still have room to move higher. Additionally, the average rent com-



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pared to median income still is reasonable in Colorado Springs compared to Denver. This has fueled population growth from people choosing to live in northern Colorado Springs, while commuting to Denver where salaries are significantly higher.

• Economy, job and population

growth. The UCCS Economic Forum forecasts that the gross metropolitan product will continue to grow faster than the national gross domestic product rate by approximately one percentage point. The forum forecasts a growth rate of 3.7 percent in 2018 and 3.5 percent in 2019 (compared to 2.8 percent in 2018 and 2.6 percent in 2019 for the U.S.). Colorado Springs ranked in the top 25 percent for gross metropolitan product growth last year and local consumer sentiment is 9 percent higher than the national rate.

The number of jobs in Colorado Springs increased 4.1 percent in the last year with the largest growth in health care, professional and technical assistance, construction and hospitality. The number of jobs has kept pace with the population growth of El Paso County although wages still have room for improvement. However, the median salary for posted jobs (\$80,100 as of October) is higher than it is for the state (\$74,300), implying that more high-skill and high-paying jobs are dominating the local labor market. The county population is projected to surpass Denver County by 2020.

Colorado Springs is the fastest-growing city for millennials, based on tracking by the Brookings Institution, and has the additional



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benefit of being one of the most educated regions in the country. Affordability of new homes for many of these young people is a challenge as the average price of local homes has increased almost 14 percent in the past year. By contrast, the average price of homes in

the U.S. have increased about 5 percent. The aforementioned healthy job growth and salary increases have large implications for all residential real estate, including multifamily.

• Fort Carson. This region has five military installations with a combined employment contribution in 2018 of approximately 55,000 workers (including active duty and contractual workers). This represents 17 percent of all workers in the region. The current, positive trajectory of new jobs in high-skill sectors alongside the statewide in-migration of highly educated people implies that the past reliance on the military is dwindling.

• Average apartment vacancy: 5.6 percent. The citywide average vacancy in apartments with 50 or more units increased slightly during the quarter to 5.6 percent, Apartment Insights reports. The trailing four-quarter average vacancy increased to 5.4 percent. The overall vacancy rate, including properties in lease-up, decreased for the second quarter in a row, to 7.4 percent.

Although overall market vacancy increased this quarter, five of the nine submarkets posted a lower vacancy. The increase was led by the south-central area moving up 212 basis points to 6.9 percent. This was followed by the airport area, increasing 88 bps to a metropolitan



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high of 7.2 percent. The only age group with a substantial increase in vacancy this quarter was the 1970s construction, with vacancy increasing to 6.4 percent.

• Average apartment rents: \$1,057 per month. Apartment market strength is evidenced by the average market rent increase of \$17 during the

quarter to a record high \$1,057 per month. The 12-month rent increase of \$38 represents an annual growth rate of 3.7 percent, still well-above inflation.

Average rents increased in every submarket except the south-central area, which includes the downtown area, where rents dropped slightly by \$5. The Rustic Hills area achieved the largest average rent increase, moving up \$35 to \$954. Right behind it was Security/Widefield/Fountain, increasing by \$33 to \$1,007.

Market average rents increased the most in older apartments. Rents grew less than 1 percent in properties built since 2010 and grew 6.2 percent in properties built during the 1970s.

• New development: 3,100 units. Colorado Springs has 3,100 apartment units currently under construction with 2,400 units planned. This compares to Denver's 28,500 apartment units currently under construction with 26,000 units planned.

Colorado Springs was late to the party with economic recovery and rent growth. This may prove to insulate Colorado Springs from the over construction that some first-tier cities are experiencing.▲