2020: YEAR-END REVIEW

DENVER METRO
ASSOCIATION OF REALTORS®

The Voice of Real Estate® in the Denver Metro Area

2020 in Perspective

STEVE DANYLIW

Past Chair of the DMAR Market Trends Committee and Denver REALTOR®

Can we honestly even compare the 2020 housing market to previous years, considering a global pandemic significantly influenced it? Yes, but we may need a few footnotes for the historical record. Ultimately, 2020 was a record-setting year for housing. Almost every major trend we track broke or smashed a record. While the overall U.S. economy experienced significant difficulties in 2020, the housing sector showed its resilience, and one could argue even benefited from the pandemic. In the end, 2020 forced us to reimagine our relationship with our home.

Amongst all the records set in 2020, active listings certainly stood out. We finished the year at an uncomfortably low 2,541 active listings - the first time below 3,000. Our previous record low was at the end of November with 3,415 listings. That represents a decrease of 25.6 percent. Since 1985, the average number of active listings at year-end was 12,941. Our record high came in July of 2006 when we recorded 31,989 listings. As we identified in last year's report, we anticipated the trend of low inventory would continue into 2020. The increased influence of the pandemic should not be underestimated as active listings are a product of two factors: new listings entering the market and listings exiting the market. New listings dropped in 2020 by 1.8 percent from 2019 and closed listings increased seven percent from 2019. Some of the key factors influencing low inventories are record-low mortgage rates fueling buyer demand combined with insufficient new housing creation. So, are we in an inventory crisis?

Months of inventory (MOI) is another great indicator of market direction as it looks at active and closed listings. We finished December at 0.53 months. To put this record low number into perspective, in February of 1988, we had a whopping 17.69 MOI with 19,196 actives and only 1,085 closings. As we examine yearly averages, 2020 posted the lowest yearly total of 1.05 MOI. This breaks our previous record low of 1.17 MOI in 2017. The record high was 1987 at 11.51 MOI. The current market is significantly skewed to favor the home seller.

2020 represented a new record high for closings in Denver metro history. We finished with 62,985 closed transactions, which represents an increase of 6.95 percent from 2019. 2017 was our previous high with 59,253 closings. 2020 also represented the sixth year in a row exceeding 56,000 transactions. In 1990, we closed only 25,619, which means in 2020 we closed 145.9 percent more homes. When examining historical numbers, it is important to consider factors like an increase in total housing units and population changes.

The 2020 national housing trends, for the most part, mirrored state and local trends. In the first quarter of 2020, the Denver metro area was outperforming 2019 with closings up 4.26 percent and the average closed price up 5.44 percent. The pandemic did the most damage during the second quarter. During that period, we closed 4,444 fewer properties compared to 2019. The rebound started in the third quarter as we closed 4,042 more properties than we did in 2019. The bottom line: buyers who were unable or unwilling to buy during the lockdowns just waited a few months.

Over the last 31 years, home prices continue to see robust growth demonstrating homeownership is the primary driver of personal wealth. The average closed price in 2020 was $525,185, an increase of 7.9 percent from 2019. 2020 established a new historical high and marked the ninth consecutive year of price growth. Over the last 31 years, the average price has increased a staggering 457 percent. Growth has been consistent since 1990 except during the mortgage market collapse of 2008, in which we saw year-over-year price drops in 2007, 2008 and 2009. The good news is that our recovery has been one of the strongest in the nation. Our pre-recession high was 2006 at $288,916. Since that time, prices have increased by 81.7 percent - that's one of the highest recoveries in the nation.

The Denver metro housing market has experienced periods of significant adversity in the past including the 2008 mortgage market meltdown and now the 2020 pandemic. With all the bad that came from the 2008 meltdown, some good came with a healthier and more sustainable housing market. So far, it appears this pandemic will not upset that previous positive path.

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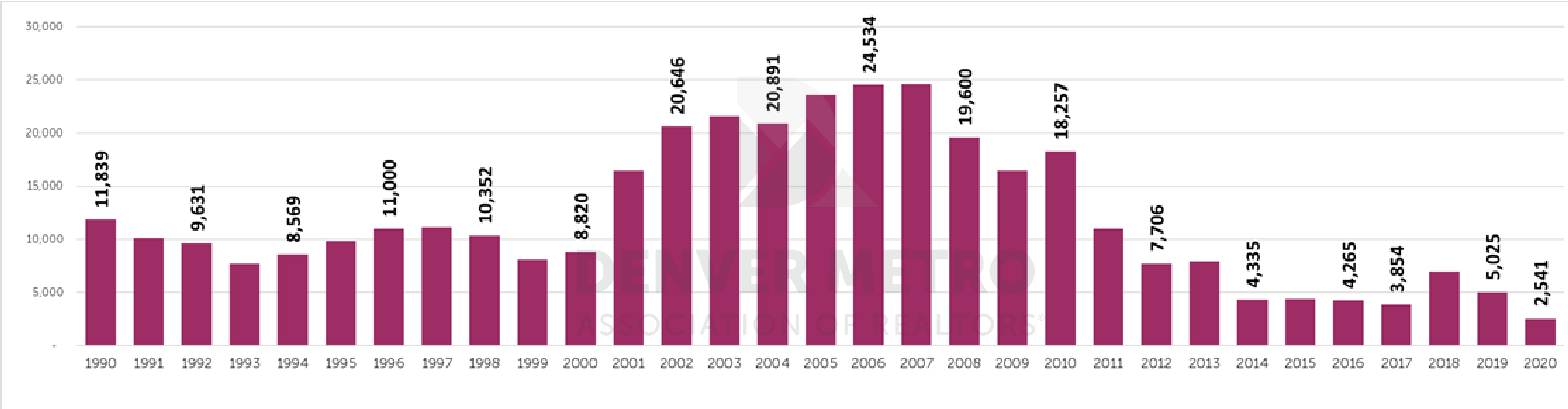
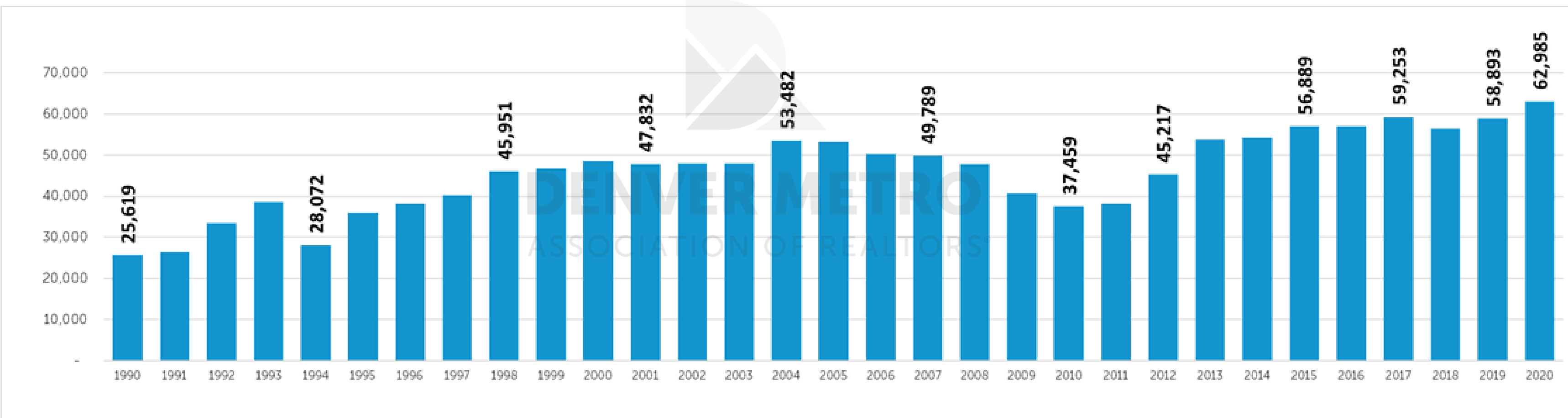
Active Listings at Year End



Closed Homes by Year



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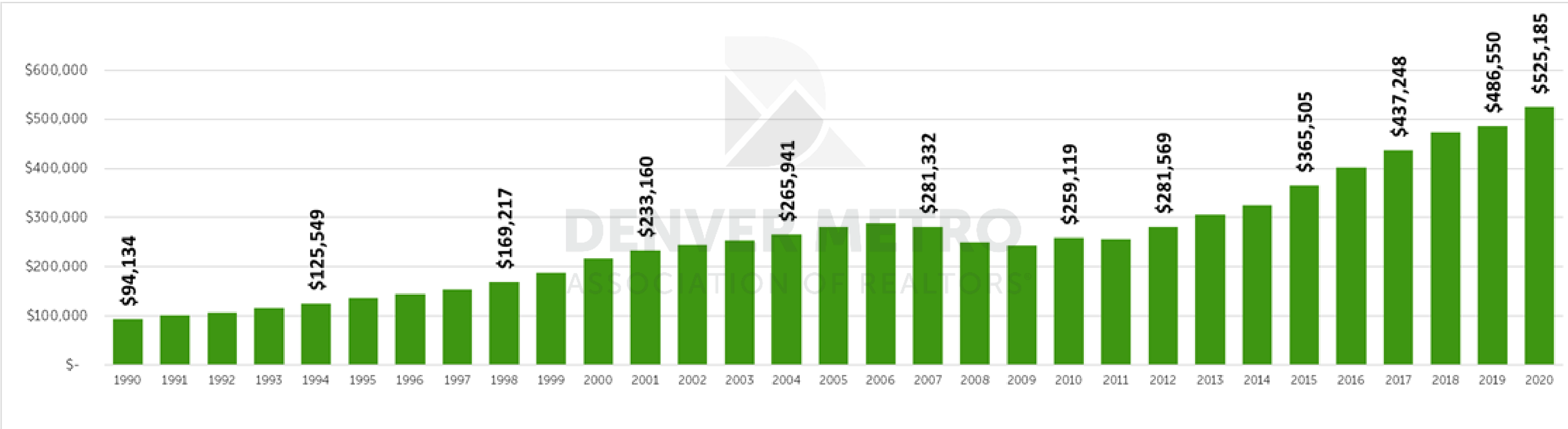
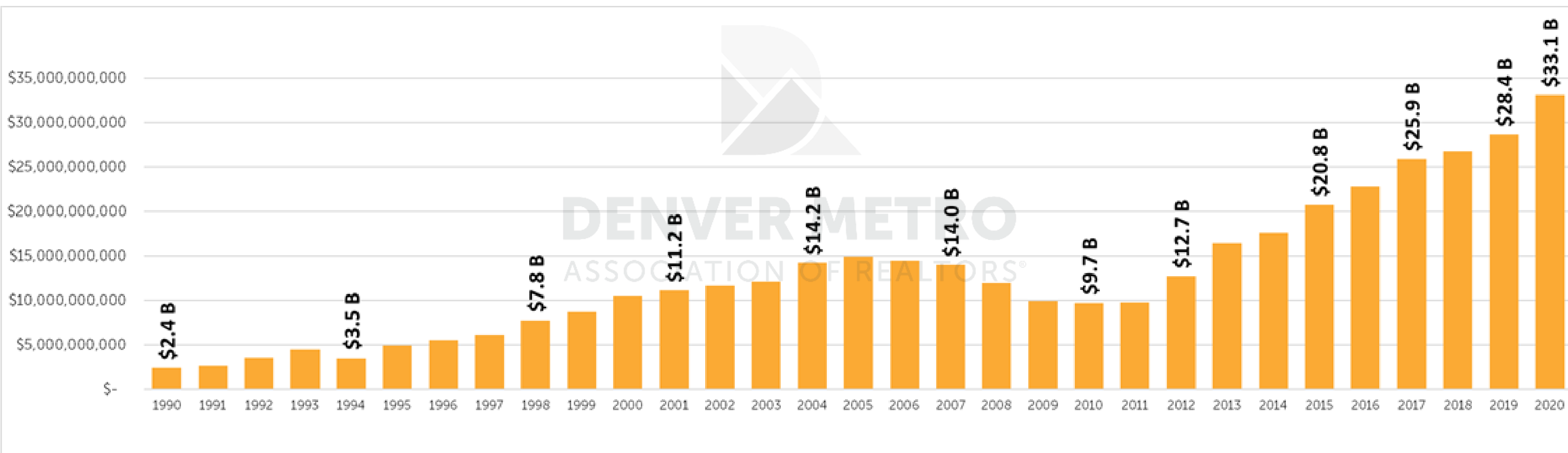
Average Close Price by Year



Closed Dollar Volume by Year



2021 Outlook in Denver Area

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After a year full of challenges and changes, 2021 seems to be a transition year back to our "adjusted normalcy." While no one can say how long the pandemic will last, there is no doubt that some of the trends that arose or accelerated in 2020 will remain even after the end of the pandemic. However, this transition will impact sectors and areas in different ways.

Booming housing market is a good surprise amid coronavirus pandemic. We no longer talk about a recovery of the real estate market from the pandemic; in fact, home sales activity rose 26 percent compared to a year earlier reaching 6.7 million homes in November. In the meantime, mortgage rates have stabilized below 2.9 percent for the last three months, boosting homebuying activity. While rates won't hike higher than 3.1 percent in 2021, expect the strong momentum in the real estate market to continue with existing home sales growing by nearly 10 percent in 2021.

In the Denver metro area, housing is also thriving. In November, home sales rose 18 percent from a year earlier while luxury homes are leading the way. Sales of homes priced above $2 million were up nearly 60 percent annually. During the pandemic, homebuyers' preferences have changed. They are seeking out features that are associated with luxury homes, like spacious yards, home offices, gyms and private swimming pools. In the meantime, metropolitan markets like Denver, with such proximity to the resort areas, are in high demand. This winter will likely be one of the best ever for the area boosting home sales activity more than 10 percent in 2021. Thus, expect Denver's housing market to outperform compared to nationwide. Denver's strong economy and favorable demographic trends seem to be the primary drivers of the local market for 2021.

- **Faster employment growth**
  Eighty percent of the jobs that were lost due to the pandemic have already been recovered in the Denver metro area. Nearly 170,000 jobs were lost in April, while 135,000 jobs have been created since then. However, the U.S. labor market is halfway back to pre-pandemic levels. As a result, payroll employment in Denver is three percent lower than a year earlier compared to six percent nationwide. Meanwhile, unemployment rate is lower in the area than nationwide.

- **More owners and renters are struggling to make ends meet**
  Because of the job losses accompanying the pandemic, a far number are behind on their housing payment, according to the Census. Eighty-eight percent of mortgage holders and 71 percent of renters have moderate or high confidence to pay next month's payment or rent in Colorado. The figure is higher compared to pre-pandemic. However, figures are running better than the national average of 84 percent of homeowners and 65 percent of renters who feel confident of making the next monthly payment. In the meantime, renters reported that eviction is very or somewhat likely in the next couple of months; 44 percent of renters in Colorado.

- **Migration gains during the pandemic**
  Colorado continued to draw many new residents to the state and experienced a net migration gain during the pandemic. This means that Colorado had more people moving into the state compared to those who moved out. Although interstate migration accounts for less than one-fifth of all moves, this type of move is worth considering because of its important implications for regional demographics and economic change. Most of the movers in Colorado came from Georgia (23 percent), Florida (19 percent) and California (14 percent). As for Denver, most of people moving to the area came from Jefferson City in Georgia and Chicago in Illinois. Denver also attracted many professionals from both New York and San Francisco during the pandemic, according to LinkedIn.

- **Favorable demographics trends**
  The Denver area is one of the most popular destinations for Millennials. In fact, 62 percent of the people who moved into the area from a different state was a Millennial in 2019. In the meantime, Millennials make up about 30 percent of Denver's population. This is a very promising indicator for the local real estate market since Millennials also represent the largest cohort of homebuyers. Specifically, 54 percent of the homebuyers in 2019 were born between 1980 and 1998. Given the job market and quality of life, these Millennials stay in the area to raise families, generating more demand for the Denver housing market.

- **Teleworking is more popular**
  Teleworking is much more popular in Colorado than nationwide. Forty-six percent of adults reported that they telework across the state compared to 35 percent nationwide. While teleworking is more popular for Millennials – the largest cohort of population and homebuyers – 56 percent of Millennials reported that they substituted some or all of their in-person work with telework in Colorado. With many companies already providing telework as a permanent option for their employees, expect telework to continue long after the pandemic even if it is two or three days per week working remotely. That will continue to propel the Denver real estate market for this year.

However, there isn't enough inventory to keep up with high demand in the Denver area. There was a limited inventory before the pandemic; it is even more limited now. In fact, we have been under-producing for the past decade. In November, the inventory of existing single-family homes for sale dropped by nearly 70 percent from a year earlier. With homes selling in less than a month, home prices are hitting warp speeds eroding affordability. Expect home prices to rise more than 5 percent, which is the national forecast for 2021.

Meanwhile, low mortgage rates help buyers to accomplish their American Dream. According to Freddie Mac, the 30-year fixed rate, which has dropped more than one percentage point over the last 12 months, is hovering into record lows. Mortgage rates are expected to average 3.1 percent in 2021. The ultra-low mortgage rates decrease borrowing cost significantly. In fact, housing in the Denver area is still more affordable now

DENVER MARKET TRENDS 2021

HOUSING MARKET TO OUTPERFORM DUE TO:

1. THE JOB MARKET IS GROWING FASTER

2. MIGRATION GAINS DURING THE PANDEMIC

MILLENNIALS ARE THE MAJORITY OF:
3. MOVERS 4. HOMEBUYERS

5. TELEWORK IS MORE POPULAR IN THE AREA

than a year earlier although home prices rose 14 percent. Assuming a buyer provided a 10 percent down payment, the monthly payment for the typical home is $1,800 compared to $1,810 a year earlier. Nevertheless, the median price of a single-family home rose to $495,000 from $435,000 a year ago.

However, housing is less affordable in the Denver metro area than in most of the metro areas across the country. One in four renters can afford to buy the typical home in the area compared to one in three renters nationwide. Thus, we need to build more homes to ease home price gains. In the meantime, supply is expected to rise modestly based on the slightly higher number of building permits of single-family homes compared to a year earlier in the Denver metro area. Homebuilders report labor shortage as one of the main constraints of housing construction, which means that the industry needs more workers. While thousands of people lost their jobs during the pandemic, especially in the leisure and hospitality industry, these unemployed people may be able to find a job in the high-paying construction industry by promoting vocational training. Local authorities should consider how to expand vocational skill training, ensuring adequate funding and actively promoting these programs throughout their communities. Community colleges would also be a great venue to develop skills in carpentry, wood framing, and construction work-related skills that is currently in critical short supply.

What's next for 2021? Expect a persistent housing shortage that will keep home prices elevated, while home sales will continue to rise as record low mortgage rates and teleworking give housing markets a boost.

This will definitely be a busy year.

ABOUT

MARKET TRENDS COMMITTEE

The DMAR Market Trends Committee, part of the Denver Metro Association of REALTORS®, *The Voice of Real Estate® in the Denver Metro Area*, provides timely, consistent and relevant monthly summaries of valuable local real estate market statistical data for both its members and the general public. Statistics from the "Denver Metro Real Estate Market Trends Report" provide data for the following counties: Adams, Arapahoe, Boulder, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson and Park.

DMAR's Market Trends Committee Members:

- Andrew Abrams, Committee Chair and Employing Broker at BSW Real Estate
- Steve Danyliw, Broker/Owner at Danyliw & Associates
- Libby Levinson, Broker Associate at Kentwood Real Estate
- William Maline, Broker Associate at RE/MAX Professionals
- Brigette Modglin, Broker Associate at Kentwood City Properties
- Drew Morris, Broker Associate at New Era Group at Your Castle Real Estate
- Jessica Reinhardt, Broker Associate at RE/MAX Alliance
- Nicole Rueth, Producing Branch Manager at Fairway Mortgage
- Jill Schafer, Broker Associate at Kentwood Real Estate
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Data Source: REcolorado, the state's largest network of real estate professionals, serves as the primary source of MLS data for the Market Trends Committee. REcolorado.com provides the most accurate and up-to-date property information for REALTORS®, real estate professionals and consumers.

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The Denver Metro Association of REALTORS®, *The Voice of Real Estate® in the Denver Metro Area*, is a membership-based organization comprised of over 7,000 real estate professionals in the Denver Metropolitan area. The Association offers continuing education, advocacy for the real estate community and is a resource for industry news and market statistics. For more information, visit www.dmarealtors.com or call 303-756-0553.

DISCLAIMER

All data presented in this report was provided by REcolorado. The data was pulled at 8:00 AM (mountain time) on the first day of the month for the preceding month(s).