

2022 FORECAST: MIDYEAR UPDATE



DENVER METRO
ASSOCIATION OF REALTORS®

The Voice of Real Estate® in the Denver Metro Area

Metro Denver Housing Outlook | Midyear Update



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At midyear, our local Denver Metro housing market is experiencing some new challenges. For the last several years, a tremendous tailwind has been pushing this market forward at a record pace. This tailwind came from a severe imbalance between supply and demand. Now come the strong headwinds of rapidly rising interest rates, inflation and overall economic conditions trending lower.

After the financial system's collapse in 2008, inventory dropped to low levels and remained low right up to the Covid-19 lockdowns in 2020. Post-Covid saw inventory drop even further. Will the change in overall economic conditions move inventory higher? Yes. Available homes for sale from May to June increased by 65.85 percent. We expect this trend to continue in the second half of 2022 - good news for buyers remaining in the market.

Both 2020 and 2021 were record-breaking years for the number of closed transactions. We anticipated that 2022 would fall short of last year's 63,684 by four to five percent. Demand has weakened as economic uncertainty weighs heavily on buyers, reducing the number of closed transactions beyond our original forecast. Expect closings to be off by seven to nine percent from last year. Given the current volatility, do not be surprised by a number that exceeds nine percent.

As interest rates rise, so too does the cost of homeownership. This is one more reason that some buyers will exit the market further reducing demand. We anticipated small increases in 2022. Unfortunately, inflation was not transitory, thus causing the Federal Reserve to raise the Fed Funds Rate. The market reacted with mortgage rates jumping from three to six percent in a month. Our consensus sees rates finishing 2022 between six and seven percent.

Our original forecast had average price growth of 11 to 13 percent. Given the new challenges, we are revising our forecast downward. Expect price growth of around nine to 11 percent. Even at those gains, nine to 11 percent would be considered a great year if you own a home.

2022 will turn out to be the story of two halves. The first half was absolutely scorching, and the second half will transition to a healthier, more balanced market with steadier appreciation. We foresee supply increasing through the rest of the year due to reduced buyer demand, resulting in fewer multiple offers and offers over asking. Days in MLS will grow and price growth will drift lower. Some neighborhoods will do better than others as buyers seek a home at an affordable price. Ultimately, the housing market is incredibly resilient and will seek balance.

Five Things to Know About the Housing Market Right Now



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Mortgage rates are rising, as are home prices. Since the beginning of the year, homebuying costs about \$1,000 extra every month in the Denver Metro area. Consequently, many buyers are priced out of the market as they no longer earn the qualifying income for the median-priced home.

Here's what buyers and sellers should know now.

1. Expect mortgage rates to rise even further. After historic lows, mortgage rates rose the first half of the year. According to Freddie Mac, the rate on a 30-year fixed mortgage was near six percent in June, up from a little over three percent at the beginning of the year. With the potential of four additional rate hikes coming from the Federal Reserve, the upward climb will continue. However, we don't expect to see the same sharp increases that the market experienced in the spring. Mortgage rates seem to have already priced in some of the effects of the upcoming Fed's rate hikes.

For buyers, rising mortgage rates mean that they can't afford as much home. Put simply, a higher mortgage rate means a lower price tag. Specifically, buyers can afford to buy a 25 percent less expensive home than at the beginning of the year. In the Denver Metro area, the typical buyer could afford to buy a home for \$540,000 with a \$2,100 monthly payment at the beginning of 2022. However, current buyers can afford to buy homes of \$420,000 with a \$2,100 monthly payment.

For sellers, higher mortgage rates typically make the market less competitive, meaning that sellers may not see as many above-asking price multiple offers and bidding wars. Less competition may take longer to sell. Nevertheless, homes continue to be sold very fast in the Denver Metro area. The average days on the market was 10 days in June.

2. Home prices will continue to rise but at a slower pace. Due to housing shortage, home prices continue to increase despite rising mortgage rates. While higher rates typically cause home prices to cool, that's not currently the case. In the Denver Metro area, the typical home is worth \$70,000 more than a year earlier. The median home price rose by 13 percentage points in June, although mortgage rates were more than 2.5 percentage points higher than last year. Nevertheless, price gains will ease in the second half of the year as home buying becomes less affordable.

For buyers, record-high home prices make it even more difficult to afford to buy a home. At the beginning of the year, buyers earning about \$100,000 could afford to purchase properties with a maximum value of \$464,000. However, they can currently afford to buy homes with a value up to \$413,000.

For sellers, they shouldn't expect the easy price gains of the past year. However, sellers will continue accumulating a substantial amount in equity as prices continue to rise.

3. There are signs that the market is cooling. Both rising mortgage rates and home prices hurt affordability for many buyers. Nearly 18 percent of the households in the Denver Metro area no longer earn the qualifying income compared to a year earlier. As a result, home sales dropped by 24 percent in June, indicating that the market is cooling. As seasonality trends end, a larger reduction of home buying activity may occur. For the remainder of 2022, consistent reductions in home sale activity should be expected.

For buyers, a reduction in home sales typically translates to fewer potential buyers competing for the same listing. Thus, buyers may not need more to offer over the asking price.

For sellers, this translates to lower demand. It's a seller's market, but that doesn't mean anymore that every house will sell at any price. Thus, sellers may need to reduce the listing price if their home is on the market for weeks. Data shows that sellers typically drop listing price by six percent if the property is on the market for 20 to 30 days.

4. Institutional buyers may increase competition for first-time buyers. Thirteen percent of home purchases were made by institutional buyers across the country in 2021. In Denver, Douglas and Arapahoe counties, the market share of institutional buyers exceeded 15 percent. Denver County (17 percent) had the most institutional buyers than any other county within the Denver metro area. With higher mortgage rates hurting affordability, more people are renting and due to low inventory, rents are rising sharply. For institutional buyers, this translates to larger profits. However, research has shown that institutional investors may be taking a significant portion of homes that would otherwise be sold to first-time and lower-income buyers.

For buyers, the presence of institutional buyers increases market competition. While most institutional buyers purchase properties below the median price, they offer all cash. Thus, first-time homebuyers in these areas seem to face an even larger competition.

For sellers, this translates to more potential buyers for their properties. While these buyers offer cash, leaseback and purchase the property 'as is,' homeowners choose to sell their home to institutional instead of traditional buyers.

5. Inventory is rising. It's very promising that housing inventory is improving. There are nearly 30 percent more homes available for sale compared to January. However, in the Denver Metro area, inventory has increased even faster. This area doubled the homes that are available for sale in June 2022 compared to last year. Nevertheless, not all buyers can afford to buy these additional homes. Buyers need to earn at least \$100,000 to afford to buy most of these additional homes in the Denver Metro area. For example, for buyers earning \$150,000, even though affordability dropped significantly, there are about 450 homes additional homes that these buyers can afford to buy compared to the beginning of the year.

For buyers, rising inventory translates to more buying options. With more homes entering the market, buyers may be able to find a home a lot easier—and less expensive—than current conditions allow.

For sellers, they should expect to receive fewer offers. Nevertheless, even though more homes enter the market, housing supply remains tight. In a balanced market, two million homes are typically available for sale. However, there is still a little bit over a million.

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.

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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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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).