

METRO DENVER

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## Buyers getting upper hand

Analysis finds some neighborhoods have more than a six-month supply of homes

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After spending more than a decade on defense, homebuyers in metro Denver are seeing conditions swing in their favor in a half-dozen neighborhoods with a couple dozen more shifting to neutral territory.

While the region's housing market may never flip fully in favor of buyers, a more balanced market appears to be on the horizon, and it has been a long time coming.

"It has been a seller's market for so long, but more neighborhoods are becoming friendly to buyers," said Lon Welsh, founder and managing broker with Your Castle Real Estate, which analyzed trends in 256 neighborhoods, mostly in metro Denver but also Colorado Springs. Within Denver, Highlands East, Cherry Creek and Belcaro to the south are now buyer's markets with a more than six-month supply of homes available at the end of June. West Colfax, Roxborough West and Castle Pines Villages have also moved into the buyer's camp.

One way to measure the balance of power between buyers and sellers is to look at months of inventory. If an area has 10 sales a month and 20 homes for sale, then it has a two-month supply of inventory. More inventory and slower sales favor buyers, while a shortfall of listings and quick turnover benefits sellers.

A seller's market is typically defined as one having under four months of supply, while an extreme seller's market — at play most of the time from 2016 to 2022 — has under one month of inventory, Welsh said.

In extreme seller's markets, buyers have almost no negotiating power. They must make an offer immediately and beat out multiple bidders. Setting conditions such as passing an appraisal, requesting an inspection and asking for any needed repairs is a nonstarter with sellers.

A buyer's market, by contrast, has six months or more of supply available and is often associated with periods of economic distress. Properties languish for months and buyers can take their time and drive a hard bargain. The region's longest and most severe buyer's market came in the late 1980s during the oil and gas bust, when the months of inventory topped 10 for three years.

The housing crash from 2006 to 2010, despite the numerous foreclosures, was a mild buyer's market compared to the late 1980s. Falling prices left people hesitant to buy, until prices got low enough that they couldn't resist. By 2012, the market had shifted back into seller's territory, where it has remained, per Your Castle's analysis.

A balanced or neutral market has between four to six months of supply and neither side has the upper hand. Despite being highly desired, balanced markets tend not to last when they do show up, Welsh said. That's because they usually represent transition phases to more extreme conditions.

Twenty-six neighborhoods met the definition of a balanced market, including Cory Merrill East, Park Hill North East, Sloan West, Sunnyside East, Washington Park West, Regis and Wellshire.

Metro Denver had 2.78 months of inventory in the second quarter, and in most places, sellers still have the upper hand, Welsh said. But they don't have the power they did in early 2021, when there was only 0.4 months of supply.



About a dozen neighborhoods, out of the 256 examined, remain an extreme seller's market with less than a month's supply of inventory. Even with high mortgage rates, they face the extreme conditions seen during the pandemic.

With only one listing available at the end of June, North Commerce City had the region's tightest housing market with only 0.3 months of supply.

Another Commerce City neighborhood, Rose Hill, was not far behind with only two weeks of inventory. Sherrelwood North, near Twin Lakes in Adams County, claimed the third-strongest seller's market in the second quarter.

Countryside East, Northhaven, West Woods Ranch, Oakbrook, West Ridge, Old Thornton North, Parkwood, Apple Meadows and Westbrook North were the other areas with under one month of inventory.

Most of the extreme seller's market neighborhoods have below-average home prices, which might explain their popularity. Golden's Apple Meadows and Arvada's West Woods Ranch were the exceptions. \*

Larger shifts in preferences may also be at play in some areas. People can live farther out from work because of more remote arrangements, which has diminished the popularity of central Denver neighborhoods, said Jenny Usaj, owner of Usaj Realty in Denver.

Downtown Denver has struggled with a negative spiral, where declining office and retail activity has hurt condo and townhome activity and that has spread to other neighborhoods near the urban core.

Beyond the shift to remote work, millennials — the prime demographic buying homes right now — are increasingly looking for locations they consider more favorable for starting families.

"Many individuals and families, particularly those in their mid-30s who are married and considering having children, are moving out of urban centers in search of larger homes and more space," she said.

Walkability remains part of the conversation, but Usaj said smaller city downtowns like Golden, Arvada and Littleton can "provide a nice blend of local, walkable and financially sensible options without having to travel to Denver."

Signs that the market is shifting include more contract cancellations, fewer homes selling above list price and properties spending more time on the market. Buyers, if they aren't locked into one specific area, should prioritize locations with more months of inventory to secure better terms and a greater discount, Welsh advised. But he also acknowledges preferences and emotions can steer the homebuying decision, not pure logic.

Time will tell if the market continues to shift in favor of buyers or if a sustained drop in mortgage rates will steamroll them.

One scenario put forward in real estate circles is that lower interest rates will improve affordability and unleash a surge in pent-up demand, bringing a milder sequel to the overheated market of 2021 and early 2022.

Yet, a softer economy, which is why the Fed would start cutting interest rates, could counteract that by knocking more buyers out of the hunt and making sellers more motivated to list their homes.

While Welsh doesn't predict the local housing market will go fully into neutral or beyond, he said buyers are gaining a level of negotiating power they haven't had in years.

"It's my expectation that inventory will continue to build for the rest of the year, and more neighborhoods will migrate to buyer market status," he said in an email. "I don't think — for most neighborhoods — there is danger of price drops, but I don't expect much appreciation either."

Buyers still won't be in charge in most places, but things will be easier for them than they have been, he said.