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Low inventory, low interest rates and a pandemic: How the coronavirus has changed residential real estate in Denver

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Homebuying activity slowed in April, only to reach record levels in June. Denver Business Journal spoke with industry experts to get their take on the past few months, and what might be next.

For real estate agents in the Denver metro, the weekend of March 14 carried hints of what life would be like under the coronavirus.

Agents reported disinfecting properties ahead of showings, offering hand sanitizer and shoe booties to potential buyers, and asking guests not to touch surfaces. Some were using FaceTime to show homes to clients who were wary of the virus.

But in other ways, the effects of the pandemic still felt far off. Open houses were drawing crowds, and agents were fielding calls from owners who wanted to put their homes on the market. Spring had arrived, after all, and the coronavirus appeared to be having little effect on the busy season in Denver.

Today, that busy season has returned, with June and July home sales outstripping even the lofty numbers from a year ago.

The intervening months were a whirlwind for Denver's housing market. Hundreds of owners pulled their homes off the market in the second half of March, exacerbating the inventory shortage in Denver. Showings bottomed out in mid-April, during Denver's stay-at-home orders, only to rebound sharply in May. A record number of homes went under contract in June.

Driven by low interest rates and pent-up demand, buyers are back on the market in droves, competing for a shrinking number of available homes.

In a typical year, home-buying activity would have already begun to slow in July, as families aim to settle in before the start of the school year. But this is no typical year, and real estate experts are acknowledging that uncertainty will likely remain a constant in the market for the foreseeable future.

"We've caught up, but now we're on borrowed time," said Megan Aller, account executive at First American Title Co., in a weekly market update. "We don't know when that shift is going to happen until it truly happens."

How we got here

When Denver real estate agents emerged from that busy weekend in mid-March, fewer than 200 people in Colorado had tested presumptive positive for the virus.

As the gravity of the pandemic set in across the country, Denver and Colorado steadily heightened restrictions on gatherings and business activities, culminating in a statewide stay-at-home order.

The original order, announced March 25, did not include real estate transactions among the list of essential business activities. That changed the next day, after industry groups pushed for an update to the order.

But real estate was still left in a state of limbo, and buyers and sellers who didn't need to move were retreating to the sidelines.

In April, closings in the 11-county Denver metro were down 30.78% year over year at 3,603, according to the Denver Metro Association of Realtors' market trends report. New listings dropped 37.82% compared to the same month last year. Pending contracts decreased 45.79% from a year ago.

Agents had to shift tactics practically overnight, moving away from in-person showings and open houses to virtual tours.

Homes were still being sold, but the coronavirus shook the industry. More than 3,000 Colorado businesses identifying as "offices of real estate agents and brokerages" were approved for Paycheck Protection Program loans, according to data from the U.S. Small Business Administration.

May brought signs of hope for real estate. In an earnings call on May 7, Re/Max CEO Adam Contos acknowledged that the second quarter would likely "reflect the full brunt of the coronavirus." But he pointed to leading indicators, such as an increase in showings and improving sentiment among potential buyers and sellers, as evidence that housing would recover sooner than many other industries.

Sure enough, new listings in May were up 56.4% from April, coinciding with relaxed coronavirus restrictions that allowed in-person showings to resume. Pending sales of both attached and detached homes grew 114.9% from April and 11.9% from May 2019.

Since transactions typically take about a month to close, pending sales are a better indication of activity in particular month than closings, which often reflect the state of the market in prior months, real estate experts say.

The momentum carried through June and July, but inventory has struggled to keep pace. June ended with 6,383 active listings, down nearly 33% from a year ago.

Supply and demand

A lack of inventory has dogged the Denver market in recent years, but the issue has been magnified during the pandemic. Owners are wondering if they can sell their homes safely, and if they'll be able to find a new home once they've sold, said Ryan Carter, president of brokerage 8z Real Estate.

"Even before the virus, sellers were like, 'OK, this is a great market to sell in, but once I sell, I'm a buyer,'" Carter said. "Depending on where you are in the tier of price points, that may not be a really appealing process."

The Denver metro is firmly a seller's market, based on its inventory shortage, and prices are rising. In July, the average price for a single-family detached home reached $601,863, up nearly 10% from a year ago.

Meanwhile, record-low mortgage rates have drawn more buyers to the market — in mid-July, the average rate on a 30-year-fixed mortgage fell below 3% for the first time in 50 years, according to Freddie Mac.

That factor, combined with pent-up demand and continued in-migration to Colorado, has created a frenzy for available homes, particularly those accessible to first-time homebuyers.

Carter recounted the experience of one of his agents, who recently listed a single-family home in Englewood at just under $400,000.

"There were 31 offers on that home," Carter said. "It had almost 60 showings in a four-day span."

The volume of offers was unusual, Carter admitted. But the scenario was emblematic of the challenges buyers face in the Denver market.

"For entry-level price points —under $500,000 — that buyer should absolutely expect to be in a multiple-offer situation," Carter said.

Renee Forsythe, an agent at Keller Williams DTC, has grown accustomed to calling listing agents to learn what exactly their clients want to see in an offer.

Recently, she submitted five offers on behalf of a client. The hopeful buyer tacked on escalation clauses, which enabled their bids to beat the next highest offers, to a point. Most of the offers made were at least $20,000 over asking price, Forsythe said. The fifth was a winner.

"Last year, we would have two to three offers on a property listing," Forsythe said. "It's still a fight, but you can win the deal more often. When you're getting 15 or 20 offers on a home, I mean, that mountain is huge to overcome. All of those little tactics come into play."

For both buyers and their agents, the experience can be daunting and, at times, demoralizing.

"As a listing agent, when I've got a property and these offers start rolling in, I hear the despair in the agent's voice when they call," Forsythe said. "'Will we even be competitive?'"

Jon Larrance, the owner and CEO of Perry & Co., a boutique real estate firm based in Denver, said the tight market has been hard on his agents. But he did note one bright spot.

"Interest rates are so low, it makes people more comfortable paying a little more or going above asking price," Larrance said.

Lori Pace, an associate broker at Kentwood Real Estate, said the current environment is necessitating more communication between agents.

"It's made us a better industry because we've communicated more with each other, and we're not just hiding between the MLS or emails," Pace said. "We're having to have conversations around the timeline, interest rates, asking questions about what banks they're working with."

Tony Carnesi, CEO of Keller Williams DTC, said he worries the continually low supply is creating a "false sense of reality" for sellers.

"With this low inventory and buyers having to do everything they can to get these houses and not lose them, we're essentially raising the value of these homes that organically would've taken years to happen," Carnesi said. "The challenge with that is going to be affordability. At some point, when do homes start becoming unaffordable because of acceleration of appreciation and pricing?"

But buyers who are waiting for prices to drop could also risk seeing those savings erased if interest rates rise in the same period, said Mike Hills, vice president of investment brokerage for Atlas Real Estate Group.

"If prices drop 10%, but interest rates rise a point, your mortgage payment is roughly the same," Hills said. "If inventory remains so freakin' low, how is [the average price] going to drop 10%?"

Where the market is headed

When CoreLogic released its Home Price Insights Report in early July, the company pegged the Denver metro's housing market as one of the most overvalued in the nation, predicting home prices to fall 9% from May 2020 to May 2021.

But those predictions were based on unemployment forecasts that have since lowered, said Frank Nothaft, CoreLogic's chief economist. Today, the company's outlook for Denver is no longer so bleak.

"We expect a slowing of price growth toward the end of this year, and it's possible we may see some stagnant or even declining prices as we get to the spring 2021 season," Nothaft said. "It really depends on what happens in terms of the severity and duration of the recession."

The adjustment speaks to the difficulties inherent to predicting where the market might be headed next during this pandemic.

"The market has just evolved so rapidly, and there's so much uncertainty in the forecast," Nothaft said.

Activity typically slows around a presidential election, but all bets are off under Covid-19, agents said. The shape of Denver's housing market in the latter half of 2020 will be largely dependent on the trajectory of the pandemic through the fall and winter months, they agreed.

Nothaft emphasized how important it is for buyers to be ready to move quickly on a home if given the chance.

"When the inventory is so low, as soon as a house comes on the market, they need to decide, is that the house in the neighborhood that meets their needs or not?" Nothaft said. "If they just wait a few days, that house is gone."

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