



Grace Property Management & Real Estate
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2023 Year End Owner Update
November 2023

Dear Grace Property Management Owner,

I hope this letter finds you well. The purpose of this letter is to provide our property owners with an update on what has transpired in the Colorado rental market during 2023, and a preview of what to expect in 2024. Although this letter is long and some of the market trends are sobering, we take seriously our commitment to keeping you informed.

**to view this letter in online pdf format, click here:*

https://www.rentgrace.com/files/GraceMgmt_2023_Owner_Memo.pdf

Looking back on 2023:

The primary story of 2023 was the impact of new legislation on the rental industry in Colorado. In our 45 years of business (my father started our company in 1978) we have never experienced such sweeping or impactful law changes. It is not an overstatement to say that the culmination of the nine new laws that passed have significantly changed the landscape of property management in Colorado, shifting more burdens to property owners while expanding the rights of tenants.

We have highlighted many of these new laws in our previously released monthly updates to you. Below we offer a brief overview of each law, along with links to the laws themselves as well as links to our comments on a few of the laws.

[HB23-1068 Pet Ownership In Housing](#)

Reduces a landlord's ability to restrict certain types of pets in rentals.

[HB23-1099 Portable Screening Reports](#)

Requires landlords to accept tenant provided background reports directly from tenants when they apply to rent a property.

[Read our comments here](#)

[HB23-1095 Prohibited Provisions in Rental Agreements](#)

Disallows several lease clauses that had previously been standard in most lease agreements, removing landlord protections.

[HB23-1120 Eviction Protections For Residential Tenants](#)

Slows and complicates the legal eviction process landlords must follow when attempting to evict a tenant.

[Read our comments here](#)

[HB23-1186 Remote Participation In Residential Evictions](#)

Removes the requirement that tenants be physically present in eviction court and allows them to participate via a video call.

[HB23-1254 Habitability of Residential Residences](#)

Increases the property condition requirements for all rental properties and allows tenants to break their lease without penalty in some instances.

[SB23-148 Illegal Drug Laboratory Property & Certification](#)

Increases the requirements landlords must follow in properties where drugs were illegally manufactured and creates a state database of those properties.

[SB23-184 Protections For Residential Tenants](#)

Prohibits landlords from considering a subsidized applicant's credit score when processing a rental application, as well as several other restrictions on landlords ability to screen applicants.

[Read our comments here](#)

[SB23-206 Disclose Radon Information Residential Property](#)

Requires new radon disclosures in leases and requires landlords to mitigate properties with elevated levels of radon.

[Read our comments here](#)

Although many of these laws are complex and required significant and sometime immediate operational changes; through our internal analysis and by working closely with our legal counsel we were able to make all necessary changes. This ensures we remain legally compliant and still provide you and your property with maximum legal protection.

Aside from these changes to the legal landscape, the Colorado rental market also experienced decreasing renter demand in 2023. Rents peaked in early 2023 and Denver rents are currently down an average of 1% as compared to this time last year. In addition, many vacant Denver rental properties are now offering move-in discounts of up to one-month free rent in order to attract new tenants.

Looking ahead to 2024:

It would be a mistake to think that all the legislative challenges to owning rental properties are behind us. The 2024 Colorado legislature is expected to vote on

several bills including rent control as well as limiting a landlord's ability to non-renew a lease.

Nationally, the Biden administration has proposed a federal [tenant bill of rights](#). The legal landscape of rental real estate will remain challenging in 2024.

Denver will see a new supply of rental housing in 2024 as new apartment construction expects to add over 120,000 new rental units, representing a 12% increase in supply. New rental supply is also coming from homeowners who are converting their properties to rentals rather than selling, and VRBO investors who are converting their properties from short-term to long-term rentals.

At the same time that we have this significant new supply of rental properties, renter demand is slowing. The effects of inflation, the ending of student loan payment deferment, and rental price increases over the past several years are resulting in some tenants delaying their planned renting experience, doubling up on housing, or simply not moving into a different rental property at all.

We expect these market changes to result in average rents remaining flat or declining modestly in 2024.

Another challenge facing landlords in 2024 is the increased cost of rental ownership. Property insurance costs and property taxes are expected to increase by double digits. The costs for maintenance and repairs have also increased dramatically over the past few years. Inflation, along with a reduction in the availability of contractors, have caused increases of up to 50% in items like paint, carpet, appliance, and general repairs over the past 24 months. We do expect the rate of these cost increases to slow in 2024.

To sum up the rental market in one sentence: Rental supply is up, renter demand is down, rents are flat, expenses are up, and legal risks have increased.

While this may not be the most attractive market for investors, it is important to keep in mind that for the past decade, we have experienced unprecedented rent growth, annual double-digit home price appreciation, and generationally low interest rates. What we are experiencing now is simply the market correcting back to a more moderate position as we come out of this decade long hyper-growth cycle.

We do have several strategies in place to ensure you and your property remain protected and financially strong:

#1 – Resident Retention:

As the financial costs of resident turnover have always been the most significant expense landlords face, we will continue to focus heavily on resident retention in 2024. In 2023 our lease renewal rate was 77%. Although life circumstances will always result in some residents having to move out of their property, (and we purposefully non-renew some residents if they are not performing on the terms of

their lease agreement), we will work to ensure all of our quality residents remain in their properties in 2024.

The reason we are able to achieve this industry leading lease renewal percentage is largely due to creating a positive experience with our residents during their lease term. Things like fast repair services, online payment options, and good old fashion customer service ensure our residents feel respected and want to stay with us. This results in avoiding unnecessary turnover and vacancy expenses.

#2 – Minimizing Vacancy Time During Turnover:

For those properties that do experience turnover in 2024 we will ensure the property is brought back to full rent-ready condition as quickly and as economically as possible. Our premium property marketing package ensures maximum visibility to people looking for a rental and our leasing team constantly monitors activity. This high touch process allows fast feedback to ensure we minimize vacancy time.

#3 – Competitive Vendor Pricing:

We screen all of our third-party vendors annually on pricing, quality of work, and timeliness. We will continue to ensure we receive competitive pricing as we benefit from both our internal economies of scale, and a loosening in the labor market.

We do believe the long-term outlook for real estate investors is positive and we remain committed to the principle that when property management is performed with integrity, both the property owner AND the resident benefit. We are committed to serving both our owners and our residents by providing clean, safe, and fair priced housing.

Operational Updates For 2024

The above referenced laws required us to make several significant changes to our business including the applicant screening process, the rent collection process, the lease renewal process, and the eviction process. Below are a few of the changes that may impact you or your property:

1. We are required by law to lower the processing standards on all applicants. Although we are no longer allowed to process or consider the credit report on subsidized applicants, we are still processing our rental applications to the full extent of the law in an effort to screen out high risk tenants. Our current monthly rent collection averages 99% of all rents due. This is in primary due to our applicant screening process and we are committed to only placing properly vetted and highly qualified residents in our rental properties.

2. We are required by law to accept tenant provided background reports. When this happens, we will ensure the accuracy of these reports.
3. The legal eviction process has been significantly complicated and delayed. The average time it now takes to evict a non-paying tenant is 120 days. Although evictions are rare, when this happens, we are experienced in overseeing this process in a timely and fair manner.
4. The landlord's ability to restrict pets in rentals has been largely reduced.
5. If your property shows elevated levels of radon, the landlord must mitigate at the landlord's expense. We will oversee this process when necessary.
6. Tenants may vacate a property at any time, and with no penalty, if they state they have health conditions because of the property and the landlord does not immediately mitigate. We will work to reduce this impact, but we do expect to see some tenants misusing this law as a way to break a lease without penalty.

Even with these operational changes, we are proud to continue offering our owners our \$1,000 risk mitigation guarantee. This exclusive guarantee provides YOU up to \$1,000 in legal fees in the event of an eviction or pet damage ([click here to view details](#)).

The necessity of regular interior property inspections have never been more important. In the past we have charged a fee for this service, but to simplify our process and better protect your property, you will no longer be charged a fee for occupied property inspections. Rather, our internal costs for property inspections will be within the lease renewal fee. Our lease renewal fee is only charged at the completion of the full lease renewal process and is \$250.

Of final note in an update on our Grace-Gives fund. This is an internal rental assistance fund into which we donate money for every lease we sign. This money is then used to help responsible residents pay their rent if they encounter an unexpected financial emergency. Since its creation 5 years ago, we have paid out rental assistance of over \$40,000 to some of our most vulnerable residents. Thank you for helping to make this possible.

If you have questions on any of the above or would like to discuss your property or other real estate investment options, please reach out to us.

On behalf of the entire Grace Property Management team, and on behalf of your resident – thank you. We are grateful for the opportunity to partner with you and we look forward to serving you in 2024 and beyond.

A handwritten signature in black ink, appearing to read "Ma Qing". The signature is fluid and cursive, with a large, sweeping "M" and "Q".

Marc Cunningham, President
Grace Property Management