MARKET REPORT | 2Q/2020

Greater Denver Multifamily

NORTHMARQ

Absorption Concentrated in Suburban Submarkets

Highlights

- The Denver multifamily market softened during the first half of 2020, with the vacancy rate rising. Renter demand was positive in the first half but lagged the pace of new inventory growth.
- Vacancy rose 50 basis points in the first half of the year, reaching 6.4 percent. The rate is up 120 basis points year over year.
- Asking rents ended the second quarter at $1,512 per month, identical to the figure one year earlier. Rents rose in the first quarter before dipping in the second quarter.
- Projects totaling approximately 4,500 units were delivered during the first half of this year, similar to the figure from the same period in 2019. There are approximately 22,000 units currently under construction.
- Sales activity slowed during the first half, particularly in the larger assets favored by institutional investors. In deals that closed, the median price was $202,200 per unit, while cap rates averaged 4.9 percent.

Q2 Snapshot	Denver Market
Market Fundamentals	
Vacancy	**6.4%**
- Year Over Year Change	**+120**
Asking Rent	**$1,512**
- Year Over Year Change	**+0.0%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$202,200**
Cap Rates (Avg YTD)	**4.9%**
Construction Activity	
Units Under Construction	**22,071**
Units Delivered YTD	**4,479**

Denver Multifamily Market Overview

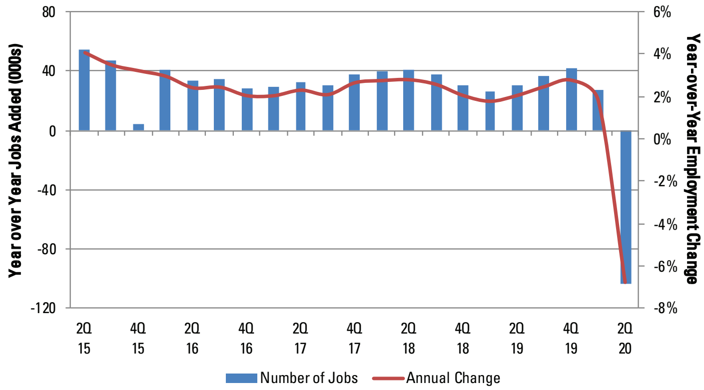
The Denver multifamily market had been in growth mode for the past several years, but the upward trajectory leveled off to start 2020 due to the coronavirus outbreak. Net absorption remained positive, totaling 2,100 units in the first half of the year, but the pace of demand growth was less robust than in recent years. Not all segments of the market are being impacted equally, with suburban areas such as Arvada and Aurora recording positive net absorption and posting rent increases, while the CBD and the Denver Tech Center have been hit the hardest.

The Denver investment market has held up during the first half of 2020. Activity levels got off to a healthy start before slowing in the second quarter as some investors took a pause to evaluate the impact of the COVID-19 outbreak on property performance and pricing. In the transactions that closed in recent months, prices have been elevated, and average cap rates at just under 5 percent have remained essentially unchanged from levels recorded since 2018.

Employment

- Employment in Denver dropped at a rate that was not as severe as the national rate of contraction during the second quarter. Year over year through the second quarter, employment in Denver is down 6.7 percent.
- Employers in Denver began adding employees back to payrolls in May, following losses in March and April. In the first two months of employers adding back jobs, approximately 30 percent of the positions that had been cut were returned to payrolls.
- One segment of the economy that has outperformed as workers have temporarily relocated to home offices has been technology. During the first half of this year, cloud distribution technology company Pax8 announced plans to create up to 1,800 new jobs over the next several years at the company's headquarters in Greenwood Village.
- **Forecast:** Denver's labor market will likely record some lingering net job losses in 2020, like nearly all major markets in the country. The market is not forecast to return to pre-COVID employment levels until 2021.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Approximately 30 percent of the jobs that were cut have been returned to payrolls

Vacancy

- Apartment vacancy ticked higher in both the first and second quarters. The rate reached 6.4 percent at midyear, 50 basis points higher than at the beginning of the year.
- Year over year, vacancy is up 120 basis points. The figure one year ago was one of the lowest rates in the past five years. Since the beginning of 2016, the local vacancy rate has averaged 5.6 percent.
- Apartment development has been active in recent years, putting upward pressure on Class A vacancy rates. Vacancy in Class A buildings ended the second quarter at 9.9 percent, up from 5.9 percent one year ago.
- **Forecast:** Absorption of apartments in the Denver area has been accelerating in recent years but will likely pull back in 2020 as the economy contracts. Vacancy is expected to push higher as a result, rising 90 basis points for the year to end 2020 at 6.8 percent.

Vacancy Trends

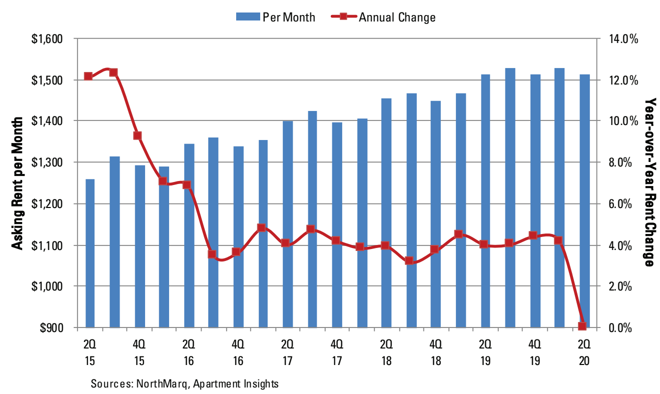
Sources: NorthMarq, Apartment Insights

Year over year, vacancy is up 120 basis points at 6.4 percent

Rents

- Rent trends in Denver have been uneven in recent quarters. Rents rose in the first quarter but dipped by the same amount in the second quarter, leaving current asking rents at midyear identical to rents at the end of 2019.
- Rents ended the second quarter at $1,512 per month, matching the figure from one year earlier. The second quarter is typically a strong period for rent growth in Denver; rents have increased by an average of nearly $50 per month in the second quarter during the past five years. This year, asking rents fell an average of $17 per month during the second quarter.
- While average rents are unchanged from one year ago, the Class A segment has posted annual gains. During the past 12 months, Class A asking rents have risen 4.3 percent, ending the second quarter at $2,383 per month.
- **Forecast:** Rents are forecast to be essentially flat in 2020, following a five-year stretch where rent growth averaged 5 percent annually.

Rent Trends

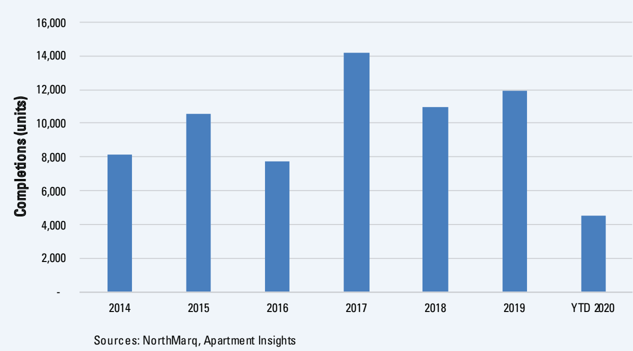


During the past 12 months, Class A asking rents have risen 4.3 percent

Development and Permitting

- Apartment construction remained active during the first half of 2020. Developers delivered nearly 4,500 new units of inventory in the first six months of the year, similar to the completions in the final six months of 2019.
- Projects totaling approximately 22,000 units are currently under construction, down 20 percent from the total one year ago.
- After peaking a few years ago, permitting for multifamily development has slowed in recent periods. During the first half of this year, developers pulled permits for approximately 2,600 multifamily units. One year ago, permits for 3,400 multifamily units had been issued.
- **Forecast:** Apartment deliveries are forecast to total approximately 10,000 units in 2020, down from 11,700 units in 2019. Deliveries have averaged 11,000 units per year since 2015.

Development Trends

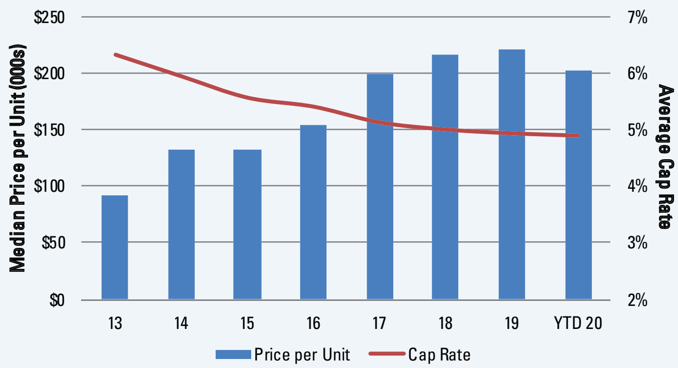


Approximately 22,000 units are currently under construction, down 20 percent from the total one year ago

Multifamily Sales

- Sales activity in the second quarter was approximately half of the levels recorded in the first three months of the year. Transaction levels in the first half were down 40 percent when compared to the first half of 2019.
- The median price in transactions through the first half of 2020 was $202,200 per unit, 8 percent lower than the median price in 2019. Prices rose in the second quarter as a few recently built properties sold for higher per-unit prices. The median price during the second quarter was $253,600 per unit.
- Cap rates averaged approximately 4.9 percent during the first half of the year, nearly identical to the average in 2019. Cap rates have been very consistent for the past three years.

Investment Trends



Sources: NorthMarq, CoStar

The median price during the second quarter was $253,600 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

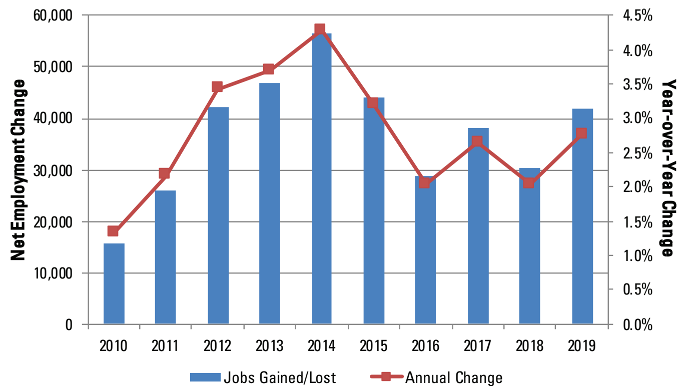
Property Name	Street Address	Units	Sales Price	Price/Unit
Avana Thornton Station	2525 E 104th Ave., Thornton	480	$119,000,000	$247,917
Fusion 355	355 Eldorado Blvd., Broomfield	286	$90,090,000	$315,000
Heritage at Stone Mountain	11625 Community Center Dr., Northglenn	320	$83,000,000	$259,375
Turnberry at Heather Ridge	2038 S Vaughn Way, Aurora	268	$46,000,000	$171,641

Looking Ahead

Renter demand growth is unlikely to keep up with additions to supply in the Denver area in 2020, putting upward pressure on vacancy. Leading into this year, supply and demand appeared to be close to equilibrium, with net absorption averaging approximately 10,000 units per year, which was similar to the expected deliveries for 2020. While absorption is still positive, the economic pullback will weigh on absorption, and vacancy is expected to rise nearly 100 basis points from the year-end 2019 level.

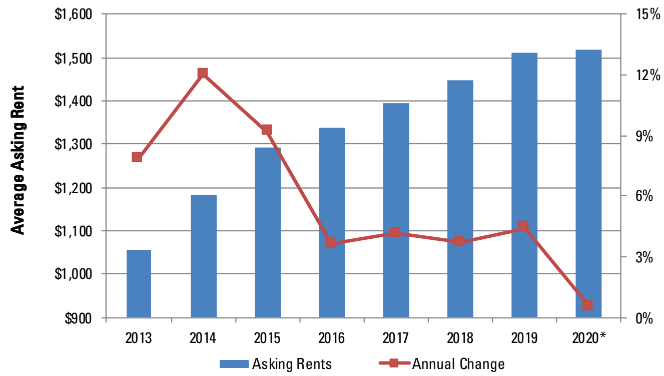
Investment volume in Denver is expected to retreat in 2020, with fewer properties changing hands than in recent years. One segment of the market that will be worth monitoring will be the dozens of projects that have been delivered in recent years. A few of these projects have sold recently when they were either in lease-up or shortly after becoming stabilized. With absorption slowing, but still fairly strong in Class A assets, these properties could be a source of transaction activity in the coming quarters.

Employment Forecast



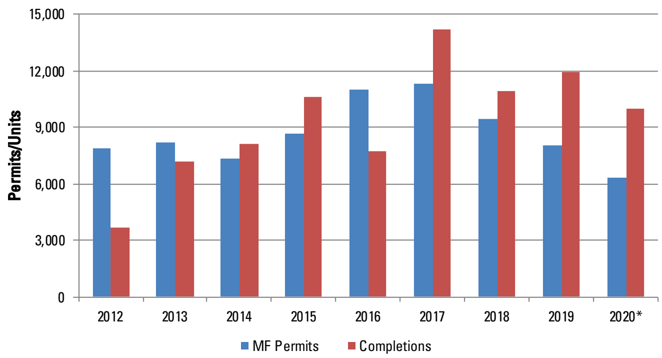
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



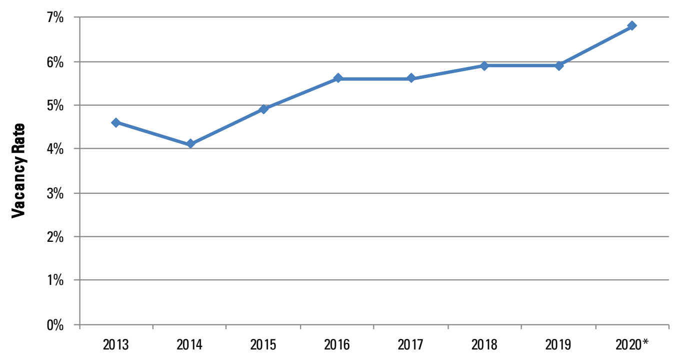
* Year End Forecast
Sources: NorthMarq, Apartment Insights

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Apartment Insights, Census Bureau

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Apartment Insights

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

For more information, contact:

David Link
SENIOR VICE PRESIDENT, MANAGING DIRECTOR – DEBT & EQUITY
303.225.2109
dlink@northmarq.com

Dave Martin
MANAGING DIRECTOR – INVESTMENT SALES
303.225.2130
dmartin@northmarq.com

Brian Mooney
VICE PRESIDENT – INVESTMENT SALES
303.225.2131
bmooney@northmarq.com

Trevor Koskovich
PRESIDENT – INVESTMENT SALES
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

Copyright © 2020 NorthMarq Multifamily, LLC.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

NORTHMARQ