

Greater Denver Multifamily

Absorption Gains Momentum to Start 2021

Highlights

- > The Denver multifamily market got off to a healthy start to 2021, with absorption ahead of last year's pace, vacancy tightening, and rents rising.
- > Vacancy inched lower in the first quarter, with the rate ticking down 10 basis points to 6 percent. The rate has declined 20 basis points year over year.
- > Rents rose 1.2 percent during the first quarter, ending the period at \$1,528 per month. Current rental rates are nearly identical to levels from one year ago.
- > A steady pace of investment activity was recorded in Denver during the first quarter. The median price continued to push higher, reaching approximately \$285,500 per unit, while the average cap rate compressed to 4.3 percent.

Q1 Snapshot

Denver Market



Market Fundamentals

Vacancy	6.0%
- Year Over Year Change	-20
Asking Rent	\$1,528
- Year Over Year Change	-0.1%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$285,500
Cap Rates (Avg YTD)	4.3%



Construction Activity

Units Under Construction	26,626
Units Delivered YTD	1,991

Denver Multifamily Market Overview

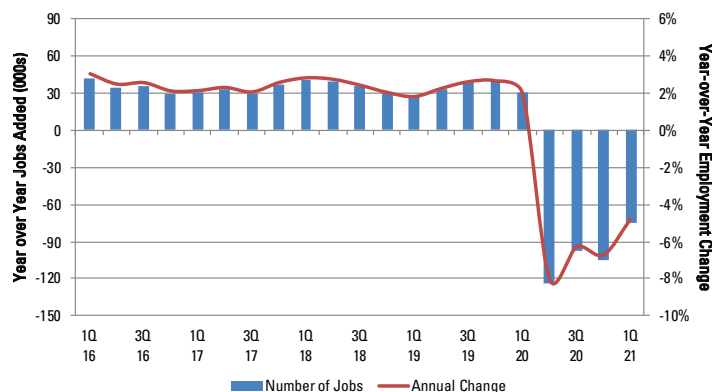
The Denver multifamily market strengthened to start 2021, with the vacancy rate tightening and rents rising. Rents were uneven during 2020, as the COVID-19 outbreak put stresses on several segments of the economy. With the larger economy recovering, the multifamily market should be sparked by healthy levels of renter demand, facilitating rent growth. Signs of strengthening renter demand were recorded during the first quarter, when absorption totaled approximately 1,850 units, up more than 40 percent from the figure during the first quarter of 2020.

Multifamily investment activity during the first quarter was similar to levels at the start of last year, although there has been an increase in sales of newer, Class A properties to this point in 2021. Class A properties accounted for nearly half of the total transactions in the first quarter, a trend that could easily continue in the next few years as new projects are delivered and leased up. Per-unit prices have continued to trend higher, topping \$285,000 per unit in the first quarter and building on gains recorded in recent years.

Employment

- > After the recovery in the local labor market cooled at the end of last year, employers have been active at the start of 2021. During the first quarter, total employment expanded by nearly 32,000 jobs.
- > Year over year through the first quarter, total employment in the Denver area is down 4.8 percent, reflecting a net loss of nearly 75,000 jobs. The local labor market is expected to return to pre-COVID levels early next year.
- > Denver’s trade, transportation, and utilities sector has been the strongest performer over the past year. Total employment in the sector expanded by 2.1 percent year over year, adding nearly 6,000 area workers.
- > **Forecast:** After a strong start to the year, employers in Denver are forecast to add approximately 70,000 jobs in 2021, offsetting nearly all of the job losses recorded in 2020.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

During the first quarter, total employment expanded by nearly 32,000 jobs

Vacancy

- > Vacancy dipped 10 basis points during the first quarter, retreating to 6 percent. While the dip was modest, it was the first time the market had recorded a vacancy decline during the first quarter in nearly a decade.
- > Local multifamily vacancy has declined 20 basis points year over year through the first quarter. The rate has ranged between 5 percent and 6.4 percent since the beginning of 2016, with the high end of that range recorded in the first half of 2020.
- > The vacancy rate in area Class A buildings declined to 7.1 percent in the first quarter, the lowest figure since the middle of 2019. Class A vacancy has declined 70 basis points during the past 12 months.
- > **Forecast:** Vacancy in Denver is forecast to rise 20 basis points in 2021, reaching 6.3 percent at the end of the year. Absorption of apartment units will gain momentum but should lag the pace of new development.

Vacancy Trends



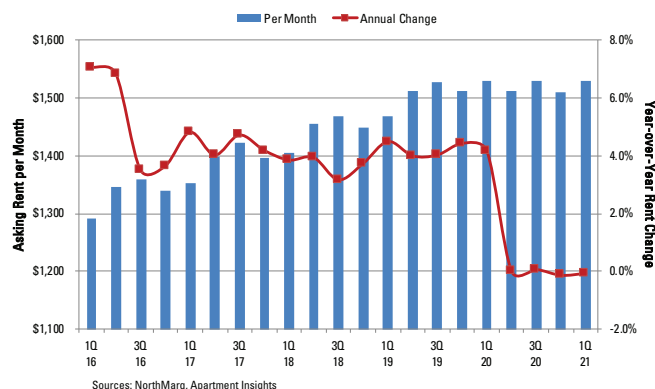
Sources: NorthMarq, Apartment Insights

Vacancy dipped 10 basis points during the first quarter, retreating to 6 percent

Rents

- > After trending lower at the end of 2020, rents rose 1.2 percent during the first quarter of this year. In recent years, the first quarter has generally been the strongest period for rent growth.
- > Local asking rents ended the first quarter at \$1,528 per month, nearly identical to the figure from one year ago. Rents peaked during the first quarter of 2020 and are currently \$1 per month below the peak figure.
- > While rents in close-in areas such as Capitol Hill and the Central Business District have recorded annual declines, outlying submarkets have posted healthy gains. Rent growth in Aurora averaged approximately 3 percent in the past year, while areas including Castle Rock, Commerce City, and Arvada posted even stronger year-over-year gains.
- > **Forecast:** Rent growth should continue in the coming quarters as economic growth gains momentum. Asking rents are forecast to rise more than 3 percent in 2021, ending the year at approximately \$1,560 per month.

Rent Trends

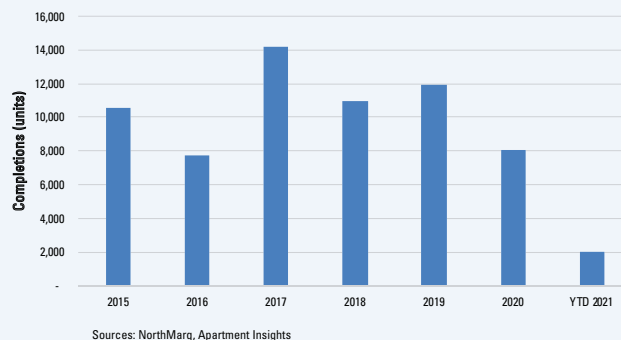


Rents rose 1.2 percent during the first quarter of this year

Development and Permitting

- > Multifamily developers delivered nearly 2,000 units during the first quarter, putting completions up 33 percent when compared to the same period in 2020.
- > Projects totaling more than 26,600 units are under construction, up 17 percent from one year ago. The number of units under construction had been steady for most of 2020 before gaining momentum at the start of this year.
- > Multifamily permitting was very consistent in 2019 and 2020, with developers pulling permits for approximately 8,000 units in each year. During the first quarter, the pace accelerated, and permits for more than 2,200 units were issued, up 37 percent from the average permitting levels during the first quarters of the past two years.
- > **Forecast:** Apartment deliveries fell below 10,000 units for the first time in five years in 2020. The pace of multifamily construction will accelerate this year, with approximately 11,500 apartment units forecast to be delivered.

Development Trends

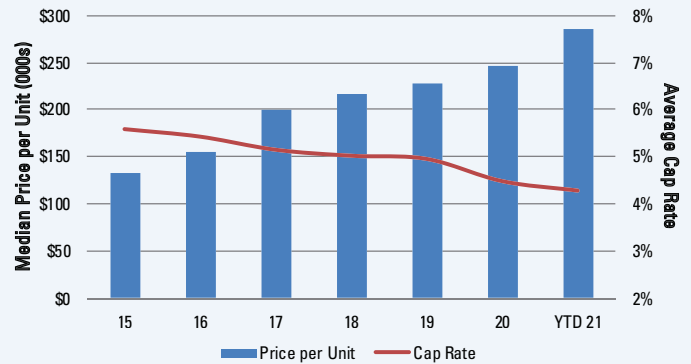


Projects totaling more than 26,600 units are under construction

Multifamily Sales

- > Sales activity during the first quarter closely tracked levels from the same period in 2020. Nearly half of the transactions executed during the first quarter involved Class A properties.
- > With sales of newer, higher-end units accounting for a larger share of the total transactions, the median price spiked at the start of the year. The median price in sales during the first quarter was approximately \$285,500 per unit, up 16 percent compared to the median price in 2020.
- > Cap rates compressed to start the year, averaging 4.3 percent, 20 basis points lower than the 2020 average. A handful of properties traded with cap rates below 4 percent.

Investment Trends



The median price in sales during the first quarter was approximately \$285,500 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

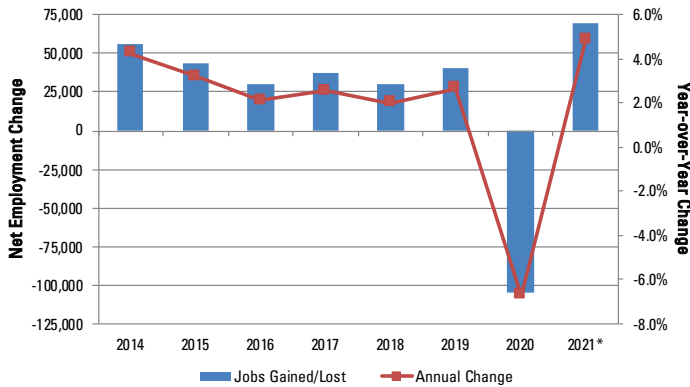
Property Name	Street Address	Units	Sales Price	Price/Unit
Gateway at Arvada Ridge	5458 Lee St., Arvada	296	\$101,580,000	\$343,176
Regatta	10500 Irma Dr., Northglenn	352	\$100,500,000	\$285,511
City Gate	2890 Brighton Blvd., Denver	241	\$83,850,000	\$347,925
Boulder Crossroads	7500 Dakin St., Denver	322	\$55,500,000	\$172,360
The Mezz at Fiddlers Green	6440 S Syracuse Way, Centennial	149	\$47,775,000	\$320,638

Looking Ahead

The Denver multifamily market is forecast to post strengthening renter demand in 2021, as the economy is likely to return to a rapid growth trajectory. While demand is expected to gain momentum, the local vacancy rate will likely inch higher in response to an accelerating pace of new construction. Still, area vacancy should remain within a fairly tight range throughout the year. Supply-side pressures in the Denver metro area are concentrated in the Central Business District, where projects totaling more than 6,000 units are currently under construction. Outside of the CBD and a few other submarkets, construction levels should be manageable, and local vacancy rates should remain near current levels.

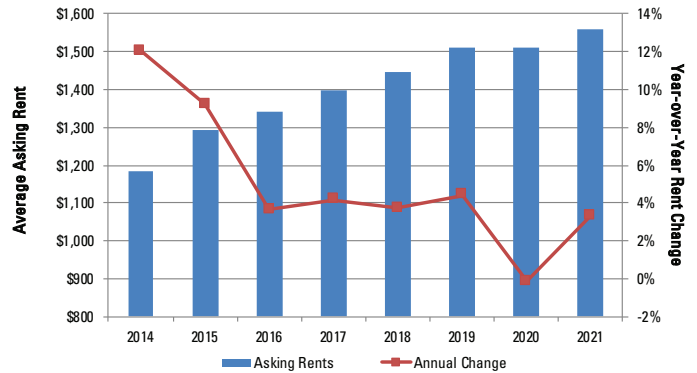
Investors are expected to remain active in the Denver area in 2021, with the market fueled by economic growth and a growing inventory of recently delivered apartment projects. In the past year, nearly two dozen transactions involving properties built since 2015 have changed hands, commanding top per-unit prices. With the development pipeline expected to remain active for the next few years, additional acquisition opportunities for recently leased-up properties should emerge. In addition to newer projects, strengthening property fundamentals should support additional transaction activity. Vacancies in Class B and Class C properties have generally remained tight, and investors are expected to be drawn to these well-performing assets.

Employment Forecast



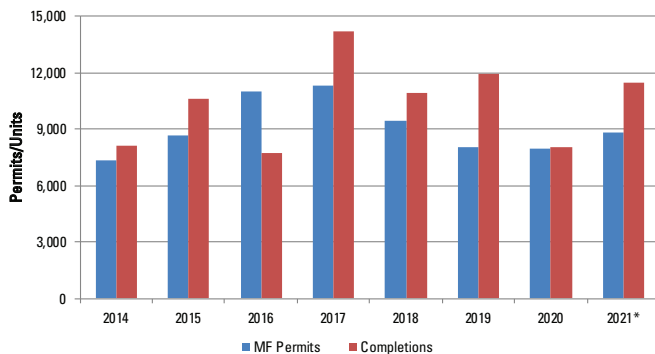
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



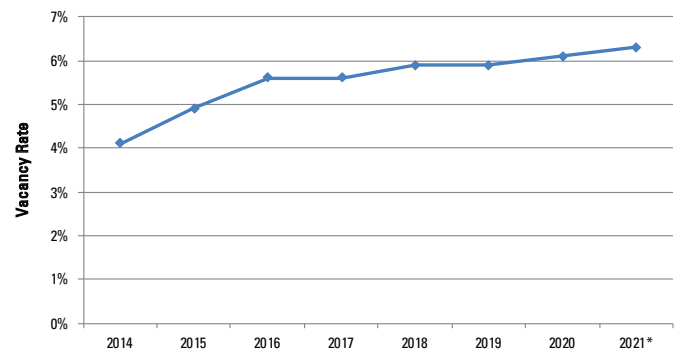
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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 \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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