Market Insights

Denver Multifamily 3Q 2022

Northmarq

Construction Activity

42,154

Units under construction

7,494

Units delivered (YTD)

Market Fundamentals

4.8%

Vacancy

+30bps | Year over year change

$1,897

Asking Rent

+9.4% | Year over year change

Transaction Activity

$338,900

Median sales price per unit (YTD)

Continued Renter Demand Fueling Ongoing Rent Gains

Highlights

- The Denver multifamily market posted healthy results in the third quarter, with asking rents continuing to rise and vacancy remaining tight. Area developers are actively constructing new units to meet the anticipated demand across the region.

- Local vacancy ended the third quarter at 4.8 percent, identical to the rate from the second quarter. After reaching an all-time low one year ago, vacancy has ticked up 30 basis points during the past 12 months.

- Rent growth remained positive during the third quarter, but the pace slowed from recent periods. Asking rents rose 1.3 percent in the last three months to $1,897 per month. Year over year, apartment rents are up 9.4 percent.

- The investment market has been steady in recent months, and the number of deals to this point in 2022 is closely tracking 2021 levels. Year to date, the median sales price is $338,900 per unit, while cap rates averaged approximately 4 percent in recent months.

Denver Multifamily Market Overview

The Denver multifamily market demonstrated continued resilience in property performance metrics during the third quarter, although there could be some cooling in the coming quarters. Asking rents trended higher for the seventh consecutive period while the vacancy rate held steady. Current vacancy levels are modestly higher than the all-time lows recorded one year ago, but are about 150 basis points lower than the market's range from 2015 to 2020, when renter demand and supply growth reached cyclical peaks. Current operating conditions are being supported by ongoing expansion in the local economy, which continues to attract business relocations and net population in-migration. Area employers have added approximately 55,000 net new jobs in the past year.

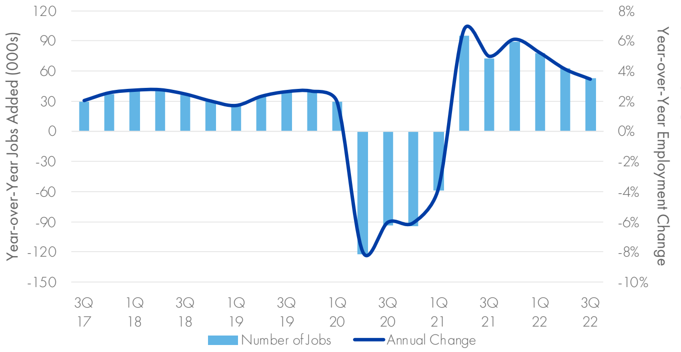
The Denver region's economic outlook continued to attract investment capital during the third quarter. While mid- and lower-tier assets fell out of favor across many markets during the third quarter, Class B and Class C properties continued to trade in Denver. The bulk of these assets that have sold in recent months had minimal vacancies and traded with cap rates ranging from 3.75 percent to 4.5 percent. The transaction mix shifted somewhat to newer and higher-quality properties in the later stages of the quarter, and these assets will likely account for a larger share of investment volume in the coming quarters. Many newer properties that were delivered in the last few years traded in the third quarter, often with cap rates closer to 4 percent.

Employment

- After significant gains in the labor market during 2021 and into 2022, the pace of employment growth tapered off in the last six months. During the third quarter, area employers added approximately 7,500 jobs, after fewer than 5,000 positions were added in the second quarter. Over the past year, growth has been far stronger; total employment expanded by nearly 55,000 positions year over year, a gain of 3.5 percent.
- Hiring in the healthcare and social assistance sector has shown signs of gaining momentum. This sector added roughly 4,700 workers year over year, with nearly all of the gains recorded in recent months.
- Virta Health, a health technology company aiming to reverse type 2 diabetes, will move its headquarters from San Francisco to Denver in the coming months. The company currently has 450 employees in Northern California with an additional 100 employees working remotely in Denver. Following the relocation, the company is expected to continue to increase its local workforce, ultimately reaching more than 900 employees in Denver.
- **Forecast:** Local employers are projected to continue to add jobs, although at a slower pace than in 2021. Total employment is expected to expand by nearly 40,000 jobs in 2022, an increase of 2.6 percent.

> Total employment expanded by nearly 55,000 positions year over year.

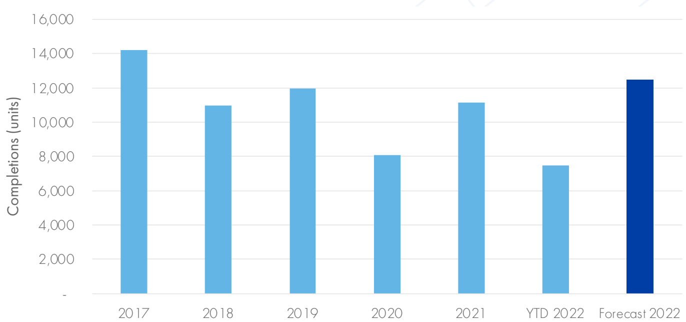
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> Projects totaling approximately 12,500 units are scheduled to come online in 2022.

Development Trends



Sources: Northmarq, Apartment Insights

Development and Permitting

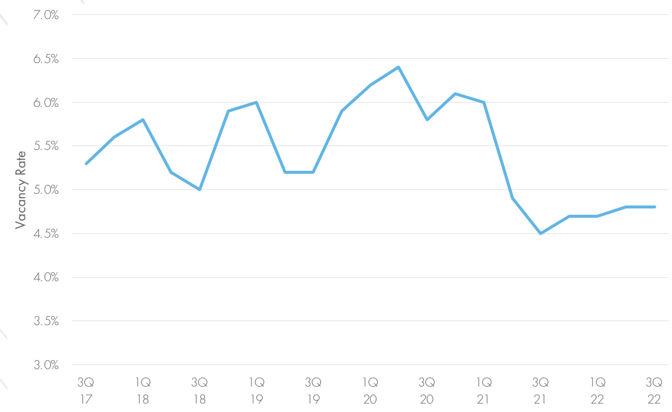
- Multifamily developers are delivering projects throughout the region with more than 2,250 units completed during the third quarter. Year to date, projects totaling nearly 7,500 units have come online. Delivery totals thus far in 2022 are closely tracking the average pace recorded since 2019.
- Projects totaling approximately 42,150 units are currently under construction, up 31 percent from one year ago. While development is underway throughout the region, the most concentrated areas for new construction include the Denver CBD, Denver Airport, and Denver Northeast. The projects in these three neighboring submarkets account for nearly 40 percent of the development pipeline.
- Permitting activity remains elevated in Denver, as developers pulled permits for more than 3,200 multifamily units during the third quarter. Permitting has been on an upswing; during the past five years, an average of 2,650 multifamily permits have been issued per quarter.
- **Forecast:** The pace of deliveries is expected to accelerate in the coming quarters. Projects totaling approximately 12,500 units are scheduled to come online in 2022, a 12 percent increase from the number of units that were delivered last year.

Vacancy

- The vacancy rate in Denver has been mostly stable during the past several periods. Local vacancy remained unchanged during the third quarter, holding steady at 4.8 percent.
- Year over year, vacancy has ticked up 30 basis points after reaching an all-time low during the third quarter 2021. Some of the tightest vacancy rates are being recorded in a handful of outlying suburban submarkets including Longmont, Erie/Firestone/Frederick, and Boulder South. These sectors of the market are all posting vacancies below 4 percent.
- After cooling in recent quarters, absorption regained momentum in the last three months. During the third quarter, net absorption totaled more than 3,100 units, nearly doubling the total from the second quarter. Year to date, net move-ins reached roughly 6,700 units. While strong, absorption levels are still about 40 percent behind the pace established in 2021.
- **Forecast:** Vacancy is projected to tick higher in the final few months of the year. The rate is forecast to end 2022 at 4.9 percent, 20 basis points higher than the year-end 2021 figure.

> Local vacancy remained unchanged during the third quarter.

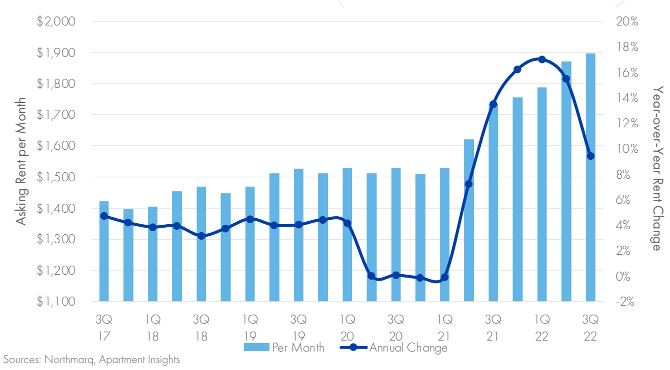
Vacancy Trends



Sources: Northmarq, Apartment Insights

> Year over year, local apartment rents are up 9.4 percent.

Rent Trends



Sources: Northmarq, Apartment Insights

Rents

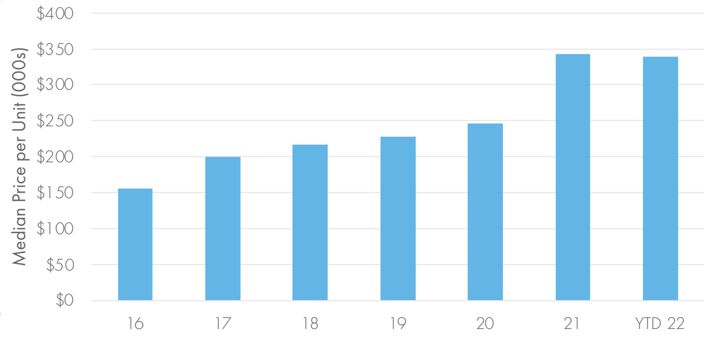
- Asking rents continued to climb during the third quarter but at a slower pace than in the previous period. Average rents rose 1.3 percent in the last three months to $1,897 per month. This followed a 4.7 percent spike in the second quarter.
- Year over year, local apartment rents are up 9.4 percent. Annual rent growth peaked earlier this year at 17 percent. Rapid rent growth is fairly common in the Denver area; the market averaged double-digit annual rent increases from 2012 to 2015.
- Class A apartments posted some of the strongest rent increases throughout the region in the last several quarters. Year over year, asking rents in Class A properties assets spiked 11.8 percent to $2,976 per month.
- **Forecast:** After significant increases in recent periods, apartment rents in Denver are forecast to post modest growth in the final few months of this year. Local rents are projected to rise 8.5 percent in 2022 to $1,905 per month.

Multifamily Sales

- Transaction activity maintained a steady pace during the third quarter, closely tracking levels from the previous period. The number of deals year to date is nearly identical to the transaction volume from the same period in 2021.
- After steady increases in the first half of the year, sales prices leveled off in recent months. To this point in 2022, the median sales price is $338,900 per unit, essentially unchanged from the median price in 2021.
- With interest rates pushing higher, cap rates have risen in recent months. During the third quarter, cap rates averaged approximately 4 percent, about 50 basis points higher than during the first half of the year. Increased borrowing costs could result in further increases in local cap rates.

> Year to date, the median sales price is $338,900 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

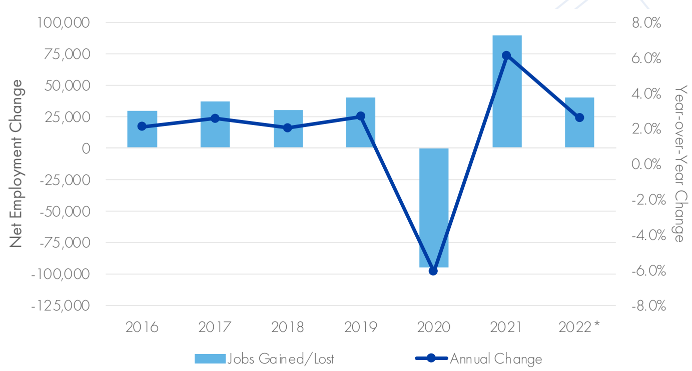
Property Name	Street Address	Units	Sales Price	Price/Unit
Griffis at Fiddler's Green	7700 E Peakview., Centennial	304	$115,000,000	$378,289
Aurora Meadows Apartments	777 Dillon Way., Aurora	461	$114,000,000	$247,289
St. Paul Collection	210 Saint Paul St., Denver	165	$97,850,000	$593,030
Lime Apartment Homes	1220 Wadsworth Blvd., Lakewood	50	$15,050,000	$301,000

Looking Ahead

Multifamily property fundamentals in Denver are expected to level off in the final months of the year, and the pace of employment growth could lag levels from the previous periods, providing a bit of a drag on absorption in the near term. Apartment developers will remain active in the coming quarters, and with the vacancy rate around 5 percent, operating conditions will likely remain tight. This should allow for continued increases to area rents but at a slower pace than the recent spikes. For the full year, rents are forecast to advance by more than 8 percent, which is below last year's surge but nearly double the average annual growth from 2016 to 2019. Preliminary indications for 2023 suggest rents will likely advance by about 3-4 percent.

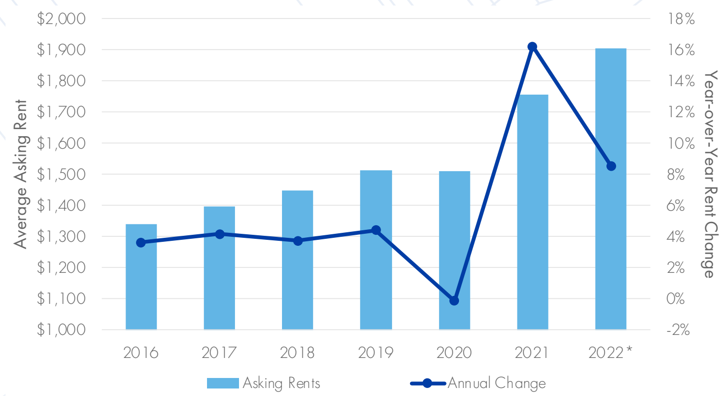
The rising interest rate environment is expected to result in a resetting of investor expectations in the Denver multifamily market. Despite an active development pipeline, vacancy rates in Denver have remained fairly steady and are forecast to remain in a tight range. These steady conditions—coupled with continued rent increases—should buoy investor sentiment, but deals may prove more difficult to get done. To this point in the cycle, investors appear to have adjusted cap rate expectations for the region's large, Class A inventory, particularly in submarkets near Denver's large employment hubs. Cap rate increases may take a while longer to stabilize in the region's older, suburban properties. Investors will also track the rate of rent increases across the market.

Employment Forecast



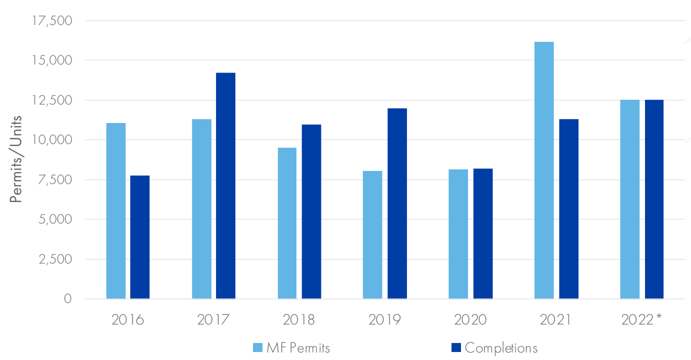
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



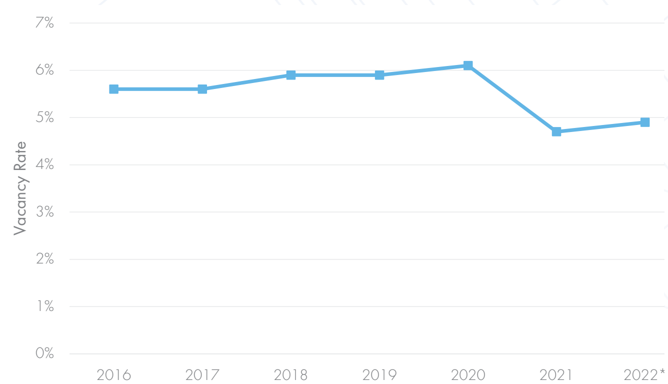
* Year End Forecast
Sources: Northmarq, Apartment Insights

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Apartment Insights, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Apartment Insights

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