

# Vacancy ticks lower again in 2023, rents on the rise

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **45,801**

UNITS DELIVERED **6,516**

## MARKET FUNDAMENTALS



VACANCY RATE **5.4%**

YEAR-OVER-YEAR CHANGE **+60bps**

ASKING RENTS **\$1,905**

YEAR-OVER-YEAR CHANGE **+1.8%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$281,200**

## HIGHLIGHTS

- Multifamily property fundamentals in Denver strengthened during the second quarter, as rent growth accelerated, and the vacancy rate improved slightly. Apartment developers have been active, completing more than 6,500 units thus far in 2023.
- Area vacancy tightened slightly in recent months, dipping 10 basis points during the second quarter to 5.4 percent. This marked the second consecutive quarter when vacancy fell 10 basis points. Despite the recent tightening, the rate is up 60 basis points year over year.
- Local apartment rents rose at a healthy pace in recent months, increasing 1.8 percent during the second quarter to \$1,905 per month. Rents are also up 1.8 percent during the past 12 months.
- Multifamily deal volume inched higher in the second quarter, but transaction counts are down about 60 percent from the first half of last year. The median sales price thus far in 2023 is \$281,200 per unit, 5 percent lower than the median price last year.

## DENVER MULTIFAMILY MARKET OVERVIEW

After property fundamentals softened at the end of 2022, the Denver multifamily market has improved to this point in the year. During the second quarter, the local vacancy rate inched lower, and asking rents regained momentum by pushing higher. While vacancy is up from one year ago, the current rate closely tracks the longer-term average, a sign of the market's relative stability. Apartment rents are also showing signs of returning to historical patterns, after surging during much of 2021 and 2022. Following sluggish rent growth during the previous two quarters, market rents rose at a healthy pace during the last few months. Developers continue to bring new projects online and delivered more than 6,500 units to this point in 2023.

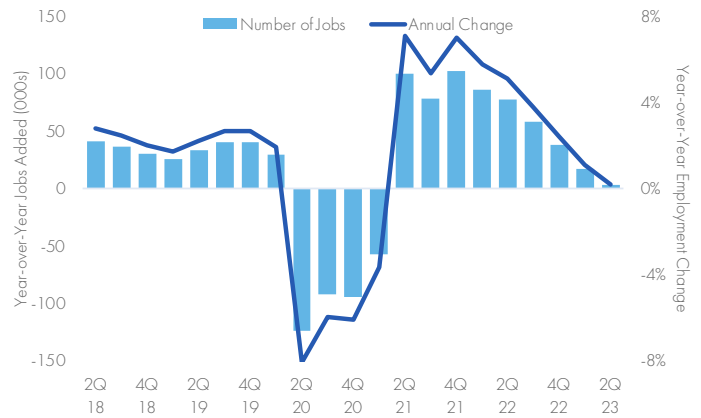
While multifamily sales volume has been limited through the first half of this year and is about 60 percent behind the pace established during the same period in 2022, the number of transactions did accelerate modestly from the first quarter to the second quarter. Properties that have traded to this point in the year occurred in many of the metro's suburban areas, including deals in the Lakewood/West Corridor, Northeast Adams County, Northwest Adams County, and South Douglas County submarkets. Properties located within the city of Denver have accounted for only about 20 percent of the transactions year to date, after averaging more than 40 percent of the total since 2020. Properties located within the city core generally trade at the high-end of the pricing range.

## EMPLOYMENT

- The local labor market has remained essentially flat through the first half of 2023, following a rapid pace of gains in the prior two years. Year over year, total employment grew by a modest 2,800 positions, a gain of 0.2 percent.
- Despite a slowdown in the overall employment market, Denver’s public sector has been a source of growth as services are added to keep pace with the region’s expanding population. During the past year, government employment expanded by 6.3 percent with the addition of 12,800 new jobs.
- Dynatrace, an AI software company, recently opened a 26,000-square-foot office in Denver’s LoDo neighborhood with plans to double its space within the next few years. Dynatrace created 100 local jobs during the second quarter and is projected to expand to 400 workers within two years.
- **FORECAST:** Employers are forecast to expand area payrolls by about 1 percent in 2023 with net gains totaling 16,000 jobs. This total represents about half the jobs added in 2022.

During the past year, government employment expanded by 6.3 percent.

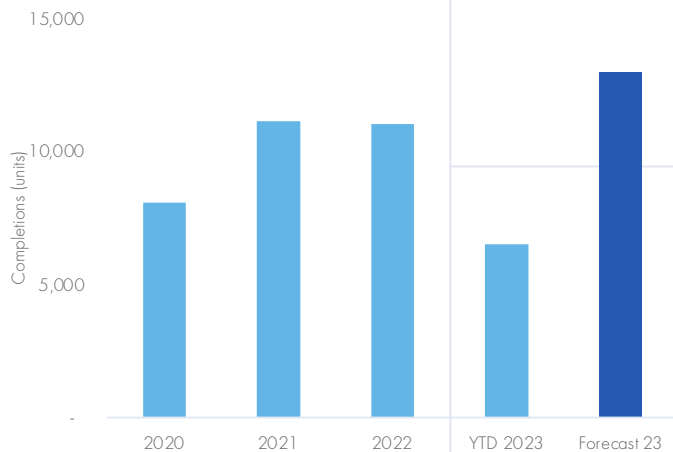
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 6,500 units have been delivered year to date.

### DEVELOPMENT TRENDS



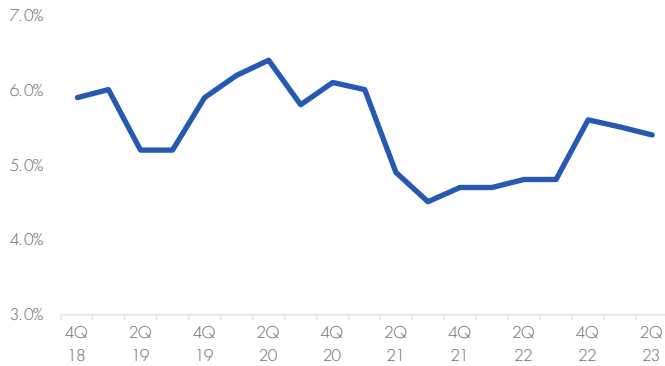
Sources: Northmarq, Apartment Insights

### DEVELOPMENT & PERMITTING

- Apartment developers continue to bring new units online at a strong pace with the completion of approximately 3,050 units in the last three months. Projects totaling more than 6,500 units have been delivered year to date. Completions to this point in 2023 are up 24 percent from the first half of last year.
- The development pipeline has been growing in recent years, and the number of projects that are under construction is on the rise, despite a healthy pace of apartment deliveries in the first quarter. Projects totaling more than 45,800 units are currently under construction in Denver, up 7 percent from one year ago.
- Multifamily permitting remains elevated as developers pulled permits for roughly 3,400 units in the second quarter. Approximately 6,400 permits were issued in the first half of 2023, up 6 percent from the second half of 2022. With development capital for rental units getting more restrictive, the pace of permitting is likely to slow in the coming quarters.
- **FORECAST:** Multifamily developers are expected to remain active in the second half. Projects totaling roughly 13,000 units are scheduled to come online in 2023, up from about 11,000 units delivered in 2022. Since 2015, deliveries have averaged approximately 10,750 units per year.

During the second quarter, vacancy dipped 10 basis points.

VACANCY TRENDS



Sources: Northmarq, Apartment Insights

VACANCY

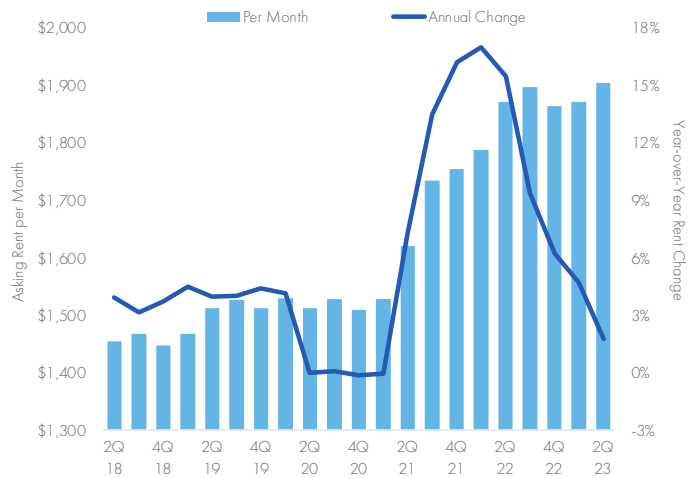
- The vacancy rate in Denver has improved a bit year to date, after trending higher at the end of 2022. During the second quarter, the rate dipped 10 basis points to 5.4 percent. Year over year, vacancy increased by 60 basis points.
- Despite a swell of new inventory in the Central Business District in recent periods, this submarket posted the largest decline in vacancy in the past year, dropping 160 basis points to 5.9 percent. Nearly 1,400 units were absorbed in this submarket during the past 12 months.
- While the vacancy rate trended higher in Class B and Class C properties from one year ago, vacancy conditions tightened in upper-tier units. Vacancy in Class A properties fell 330 basis points during the past 12 months to 6.8 percent.
- **FORECAST:** Area vacancy is expected to inch slightly higher in the second half of the year. The rate is forecast to finish 2023 at 5.6 percent, matching the figure from the end of last year.

RENTS

- Following a drop in rents at the end of 2022 and a slow start to the year, apartment rents in Denver rose 1.8 percent during the second quarter to \$1,905 per month. Year over year, rents also increased by 1.8 percent. While recent rent trends have been volatile, the market's long-term average rent growth generally ranges between 4.5 percent and 5.5 percent.
- Although most areas in Denver posted annual rent gains below 3 percent, there were a handful of smaller submarkets that recorded robust rent growth. Apartment rents in Aurora Northeast, Golden, and Boulder South jumped between 8 percent and 11 percent during the last year.
- The strongest rent increases in recent periods have been recorded in lower-tier assets. Average Class C rents rose 3 percent in the last 12 months to \$1,357 per month.
- **FORECAST:** Apartment rents in Denver are projected to tick higher at a modest pace in the second half of the year. Asking rents are forecast to rise 3 percent in 2023 to \$1,920 per month.

Rents rose 1.8 percent during the second quarter.

RENT TRENDS



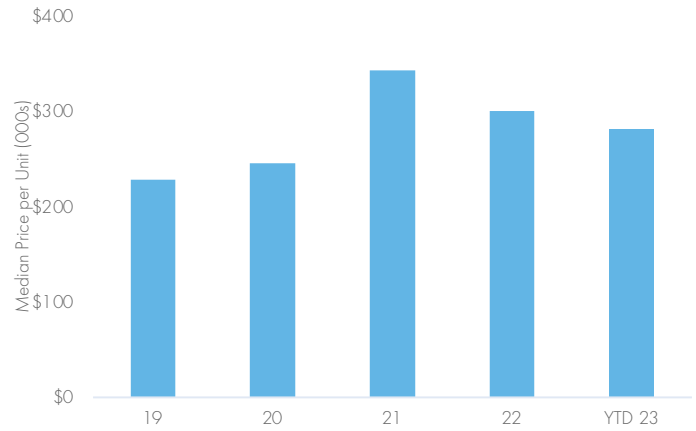
Sources: Northmarq, Apartment Insights

## MULTIFAMILY SALES

- While transaction activity picked up slightly from the first quarter to the second quarter, overall sales volume to this point in the year has been limited. The number of deals in the first half of 2023 fell 60 percent from the same period last year.
- As fewer properties changed hands, pricing inched lower. The median sales price thus far in 2023 is \$281,200 per unit, down approximately 5 percent from the median price last year.
- Cap rates continued to tick higher in recent months. Cap rates averaged approximately 5.25 percent during the second quarter, about 65 basis points higher than at the beginning of the year.

The median sales price thus far in 2023 is \$281,200 per unit.

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

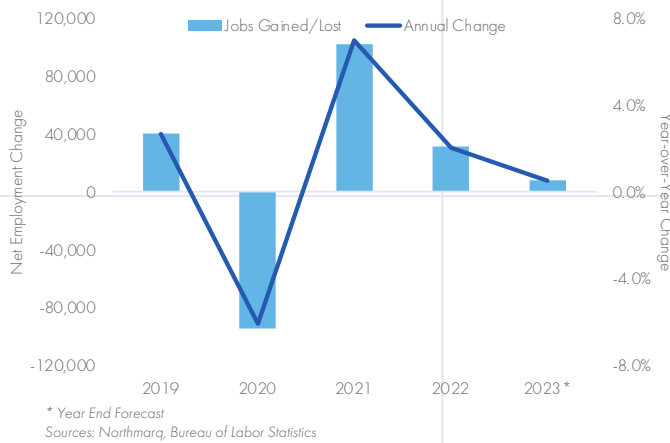
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Broadstone Wren	8521 Kings Point Way., Parker	250	\$90,500,000	\$362,000
Springs at Castle Rock	3715 Bilberry St., Castle Rock	204	\$67,150,000	\$329,167
Trailpoint by Trion Living	10756 E Virginia Ave., Aurora	198	\$41,400,018	\$209,091
The Villas at Gage Pointe	8805 E 12th Ave., Denver	83	\$13,325,000	\$160,542
Ingalls Grove Apartments	2640 Ingalls St., Edgewater	54	\$2,650,000	\$49,074

## LOOKING AHEAD

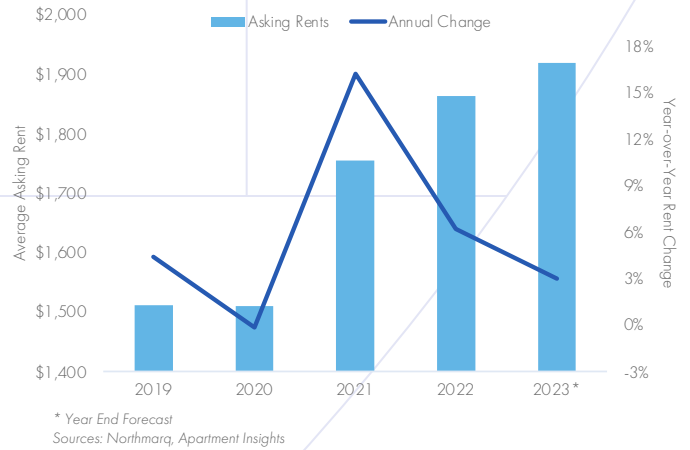
Many of the operational trends that prevailed in Denver in the first half of 2023 will likely carry over into the second half. Absorption levels have recovered from the drop in demand at the end of 2022 and should remain healthy in the third and fourth quarters. However, supply growth is expected to slightly outpace net move-ins for the remainder of the year. The forecast result will be a slight uptick in the local vacancy rate in the second half, offsetting the modest improvement recorded during each of the first two quarters of 2023. For the full year, the rate will remain largely stable and consistent with the region's long-term trend. Multifamily development activity is projected to closely track levels from earlier this year and will represent a faster pace of deliveries than the region's recent average.

Multifamily sales activity remains limited in Denver as the heightened cost of capital continues to drag on deal flow. Looking ahead, the pace of sales should hold fairly steady for the next few months, with transaction activity likely to pick up either at the end of this year or in 2024. Cap rates have trended higher in recent periods but may level off as the Federal Reserve moves to a less restrictive stance. Properties traded with cap rates around 5.25 percent in the second quarter, and sellers may resist going much higher than current levels, particularly if Treasury bond yields trend lower. Investors have traded a diverse mix of suburban properties to this point in the year, including recently built Class A assets as well as 1970s Class B and Class C apartments.

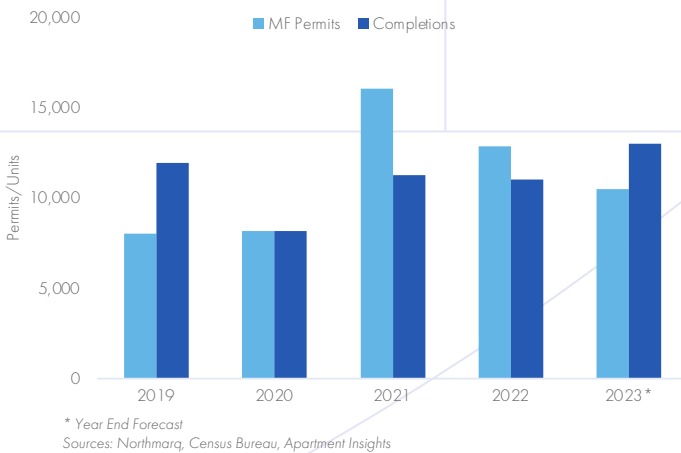
### EMPLOYMENT FORECAST



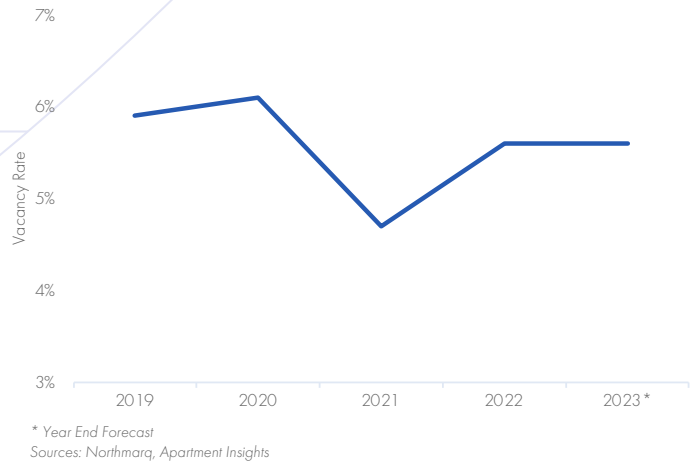
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





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