

# Vacancy steadies even as deliveries remain elevated

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **44,539**

UNITS DELIVERED **9,868**

## MARKET FUNDAMENTALS



VACANCY RATE **5.4%**

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

ASKING RENTS **\$1,928**

YEAR-OVER-YEAR CHANGE **+1.6%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$311,500**

## HIGHLIGHTS

- Multifamily property fundamentals in Denver generally improved during the third quarter with rents pushing higher and vacancy stabilizing. Apartment developers remain active, completing nearly 9,900 units thus far in 2023.
- Local apartment rents rose 1.2 percent during the third quarter to \$1,928 per month. During the past 12 months, rents have grown by 1.6 percent, although gains in 2023 have been occurring at a faster pace.
- Area vacancy held steady from the second quarter to the third quarter, finishing the period at 5.4 percent. Year over year, the rate increased by 60 basis points.
- Apartment sales activity picked up in recent months but remains well below last year's pace. The median sales price year to date is \$311,500 per unit, and prices rose in the transactions that closed in recent months.

## DENVER MULTIFAMILY MARKET OVERVIEW

Steady vacancy conditions despite persistent supply growth continues to be one of the leading stories in the Denver multifamily market. Projects totaling nearly 9,900 units have come online to this point in the year with another 44,500 units currently in the construction pipeline. While developers have completed projects throughout the region thus far in 2023, the most active submarkets for new development include the Denver CBD and Interlocken. Despite new inventory, vacancy conditions have remained in a tight band since the end of 2022, and the current rate is identical to the quarterly average for the past five years.

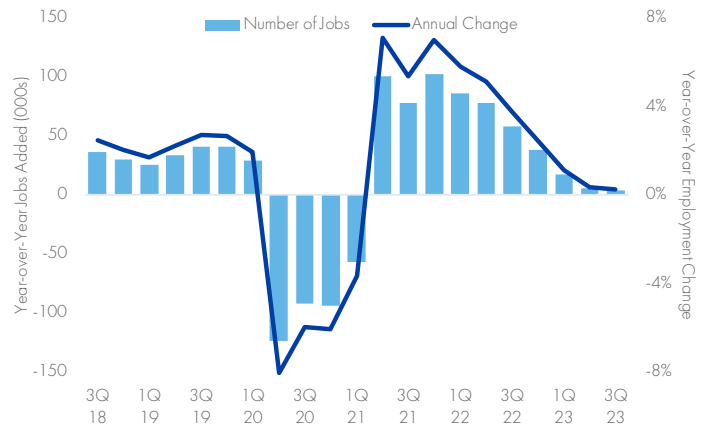
The multifamily investment market in Denver strengthened during the third quarter with pricing trending higher and sales activity bouncing off of earlier lows. Although overall deal volume year to date is still well below the pace set last year, transaction velocity increased 50 percent from the second quarter to the third quarter. Per-unit pricing ticked higher in recent months as the transaction mix included a variety of properties across the quality spectrum. The median sales price to this point in 2023 is \$311,500 per unit, up 4 percent from last year; during the third quarter, the median price was \$344,900 per unit.

## EMPLOYMENT

- The employment market in Denver has posted sluggish growth in recent quarters, after rapid expansion in the previous two years. During the past 12 months, area employers have added only 4,000 jobs, a 0.3 percent advance.
- During the past 12 months, job growth in Denver was most pronounced in the public sector. Year over year, government employment expanded by 4.9 percent with the addition of 10,200 new jobs. Many of the positions that have been added were in state and local government, where staffing levels are returning to pre-Covid levels.
- United Airlines recently purchased 113 acres of land near the Denver International Airport with plans to expand its pilot training facilities. The new training center is expected to be completed in 2028 and will bring 240 high-paying jobs to the region, including flight instructors, simulation technicians, and engineers.
- **Forecast:** Some softer conditions in the Denver area’s large white-collar employment sectors will likely drag on growth in 2023. Total employment is forecast to increase by 0.6 percent this year, with approximately 10,000 net new jobs added to area payrolls.

*Job growth was most pronounced in the public sector.*

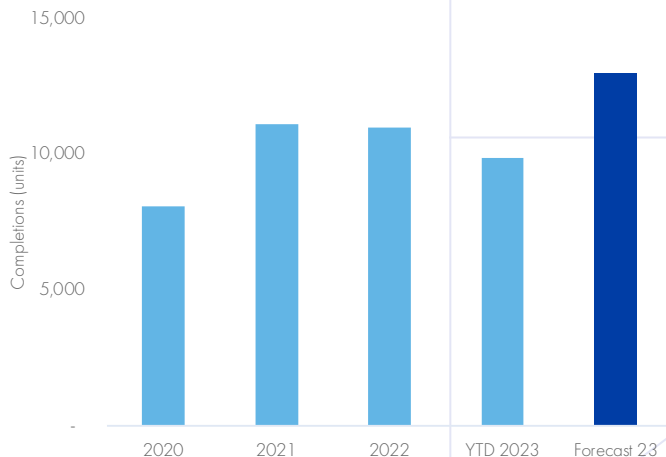
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

*Developers have delivered nearly 9,900 units thus far in 2023.*

### DEVELOPMENT TRENDS



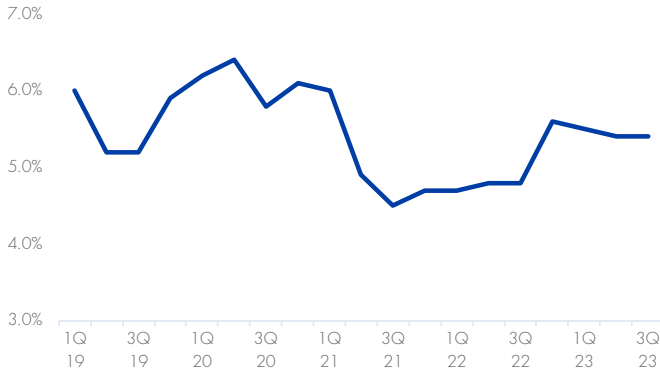
Sources: Northmarq, Apartment Insights

### DEVELOPMENT & PERMITTING

- While a greater number of projects entered the development pipeline in recent years, the pace of deliveries has been very steady. Approximately 3,350 units were completed during the third quarter, and nearly 9,900 units have been delivered to this point in 2023.
- Projects totaling approximately 44,500 units are currently under construction throughout the Denver region, up 5 percent from one year ago.
- Multifamily permitting slowed a bit during the third quarter as developers pulled permits for roughly 2,200 units. Permits for approximately 8,500 units have been issued year to date after more than 10,500 permits were pulled during the same period in 2022.
- **Forecast:** Apartment developers on track to deliver nearly 13,000 units this year. Construction of new units has been fairly steady for the past several years in Denver; since 2015, deliveries have averaged approximately 10,750 units per year.

## The vacancy rate held steady at 5.4 percent.

### VACANCY TRENDS



Sources: Northmarq, Apartment Insights

### VACANCY

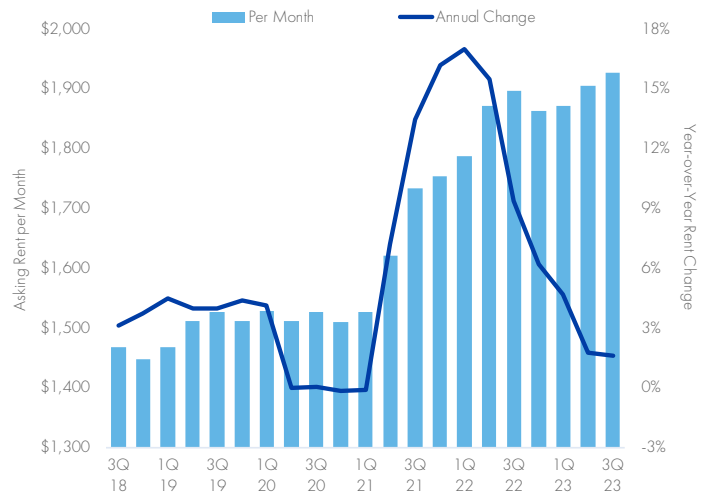
- Vacancy in Denver held steady at 5.4 percent in the third quarter. Year over year, the rate increased by 60 basis points.
- Some of the tightest vacancy conditions in the region are in submarkets outside of the city center. The Denver Northeast, Aurora Southwest, Denver South Central, Denver Southwest, and Wheat Ridge submarkets are all recording vacancy rates below 5 percent.
- While vacancy trended higher across all property classes from one year ago, the lowest rates are being recorded in Class C units. Vacancy in lower-tier properties ended the third quarter at just 3.4 percent.
- **Forecast:** Area vacancy is expected to inch slightly higher in the final months of the year. The rate is forecast to finish 2023 at 5.6 percent, matching the figure from the end of 2022.

### RENTS

- Apartment rents in Denver climbed in recent months, rising 1.2 percent during the third quarter to \$1,928 per month. Year over year, area rents are up 1.6 percent. After falling at the end of 2022, local asking rents are up 3.4 percent year to date.
- While rent trends across the Denver region have varied across submarkets, the Boulder area is recording consistent gains. Rents in the Boulder North submarket have advanced 2.7 percent year over year to \$2,307 per month, while rents in Boulder South are up 2.6 percent, ending the third quarter at \$1,873 per month.
- Operators in Denver continue to charge a considerable premium for its newer, Class A properties. Asking rents in upper-tier units finished the third quarter at \$2,993 per month, 55 percent higher than the average rent for all units.
- **Forecast:** Local asking rents are projected to remain in their current ranges through the remainder of the year, following steady gains to this point in 2023. Apartment rents in Denver are expected to finish the year at around \$1,930 per month, up 3.5 percent.

## Year over year, rents are up 1.6 percent.

### RENT TRENDS



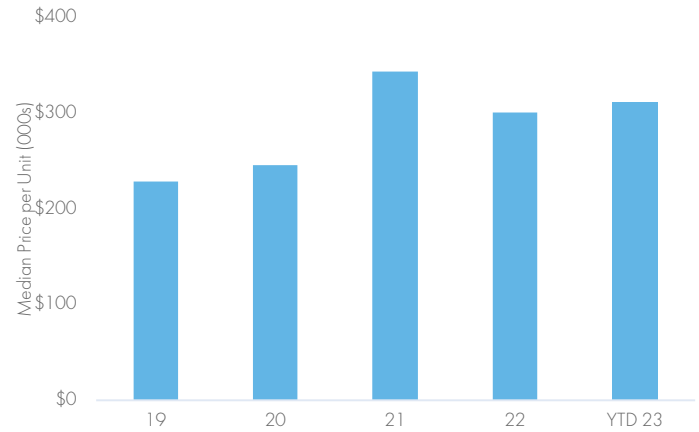
Sources: Northmarq, Apartment Insights

## MULTIFAMILY SALES

- Transaction activity continued to pick up in recent months although overall deal flow remains fairly limited. While the number of sales increased 50 percent from the second quarter to the third quarter, overall sales velocity year to date is down 60 percent from the same period in 2022.
- Pricing in Denver strengthened in recent months. The median sales price thus far in 2023 is \$311,500 per unit, up nearly 4 percent from the median price last year. The median figure in the third quarter alone was \$344,900 per unit.
- Cap rates held fairly steady in the third quarter, averaging around 5.25 percent. Cap rates were averaging closer to 4 percent one year ago.

The median sales price thus far in 2023 is \$311,500 per unit.

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

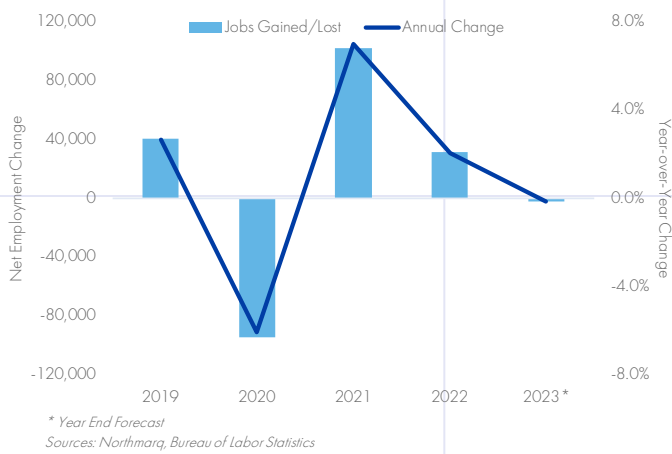
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Seasons of Cherry Creek	3498 E Ellsworth Ave., Denver	587	\$225,000,000	\$383,305
Moderia Art Park	3299 Brighton Blvd., Denver	417	\$182,000,000	\$436,451
Helios Apartments	7901 E Belleview Ave., Englewood	258	\$89,000,000	\$344,961
Arabelle Lincoln Station	10346 Park Meadows Dr., Lone Tree	232	\$80,000,000	\$344,828
B Street LoHi	1736 Boulder St., Denver	73	\$29,000,000	\$397,260
Belmar Groves Apartments	259 S Teller St., Lakewood	118	\$27,000,000	\$228,814

## LOOKING AHEAD

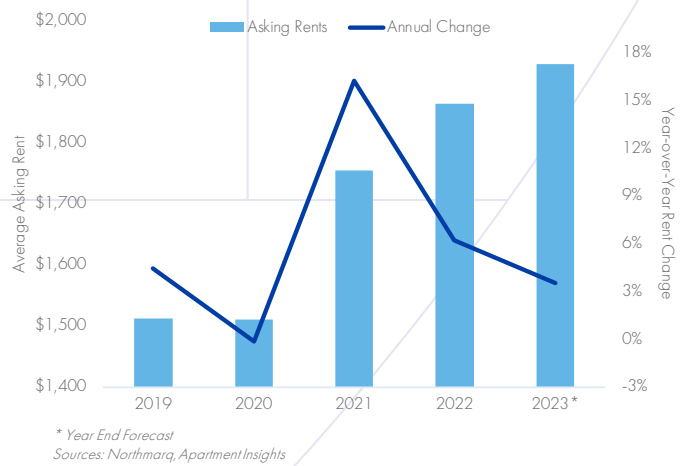
Operating conditions in Denver are expected to maintain their recent trajectory through the final few months of 2023. Through the remainder of this year and into the years to come, how the market continues to absorb new supply will be the largest driver of property performance in Denver. Total inventory in the region is set to grow by roughly 13,000 units in 2023 after approximately 11,000 units were delivered in each of the past two years. In addition, the pace of deliveries is projected to remain elevated through 2024 and 2025. Even with continued supply growth, vacancy rates are unlikely to push substantially higher. The region continues to attract businesses and new residents, supporting renter demand.

Although overall deal volume is still lagging behind last year's pace, the multifamily investment market in Denver did show some signs of improvement during the third quarter. Looking ahead, the pace of sales should gradually accelerate, setting the stage for a slow return to normalcy at some point in 2024, likely in the second half of the year. An early look into the fourth quarter of this year shows that activity is picking up in the sale of recently built Class A and Class B projects, driving per-unit pricing higher. Cap rates are projected to level off slightly higher than recent levels as investors respond to higher costs of capital.

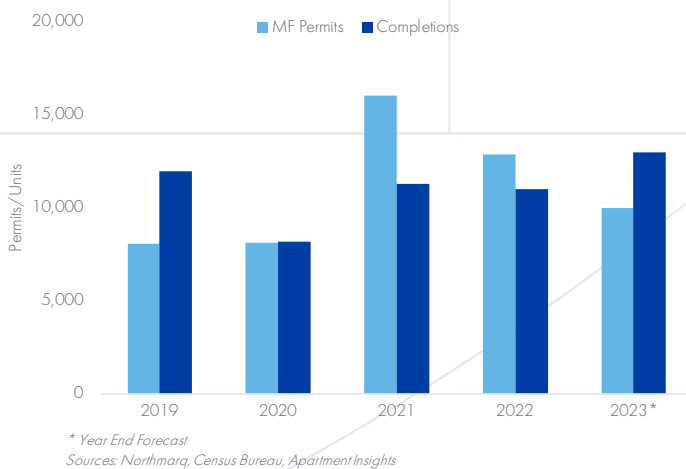
### EMPLOYMENT FORECAST



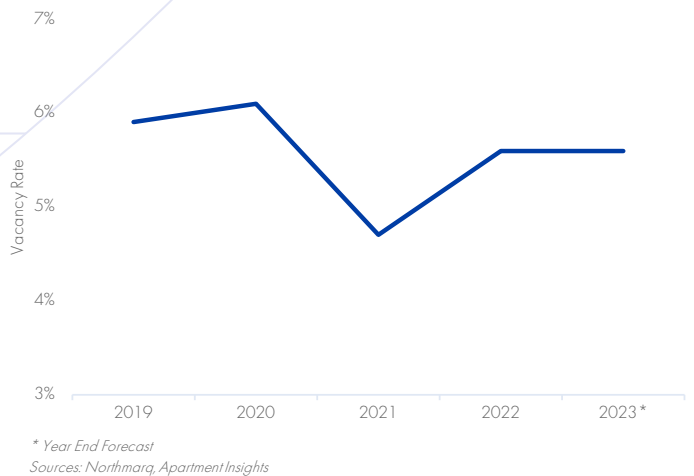
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





**FOR MORE INFORMATION,  
PLEASE CONTACT:**

**DAVE MARTIN**

*Regional Managing Director—Investment Sales*  
303.225.2130  
dmartin@northmarq.com

**BRIAN MOONEY**

*Vice President—Investment Sales*  
303.225.2131  
bmooney@northmarq.com

**RICH RITTER**

*Vice President—Investment Sales*  
303.832.1773  
rritter@northmarq.com

**LINDSEY FAHEY**

*Vice President—Investment Sales*  
303.225.2139  
lfahey@northmarq.com

**DAVID LINK**

*Regional Managing Director —Debt & Equity*  
303.225.2109  
dlink@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

**ABOUT NORTHMARQ**

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching \$80 billion, and \$40+ billion in transaction volume.

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.

© 2023. All rights reserved.

**BUILT TO THRIVE**

**northmarq.com**