

# Greater Denver Multifamily

## After Several Strong Years, a Slower Start to 2019

### Highlights

- > The Denver multifamily market got off to a slower start to 2019 than has been recorded in recent years. The vacancy rate inched higher even as the pace of new construction cooled. Rents continued on an upward trajectory, although the pace of gains has slowed in Class A apartments.
- > Apartment vacancy in Denver crept up 10 basis points in the first quarter to 6 percent. The rate is 20 basis points higher than one year ago. Vacancy last reached 6 percent in early 2017.
- > Asking rents rose 1.4 percent in the first quarter, and at \$1,468 per month are up 4.5 percent year over year. Recent rent increases have been strongest in Class B and Class C properties.
- > Sales activity slowed during the first quarter, but the median price rose as transaction velocity gained momentum in newer buildings. Cap rates ticked higher to average 5.1 percent.

### Denver Multifamily Market Overview

The Denver multifamily market slowed down a bit during the first quarter of 2019. The number of units delivered lagged levels from earlier quarters, and the absorption of units—while still positive—was down approximately 10 percent from the same period one year earlier. This moderation in the local economy follows a period of rapid growth in both supply and demand for local apartment properties. From 2013-2018, nearly 60,000 apartment units were delivered in the Denver market, increasing the total inventory by nearly 30 percent. During those several years of active development, the local vacancy rate has increased by fewer than 200 basis points, highlighting the continued demand that has been present in the Denver market.

### Market Indicators

Quarterly Changes	1Q/2019
Vacancy .....	↑
Rents .....	↑
Transaction Activity.....	↓
Price Per Unit.....	↑
Cap Rates.....	↑

### Summary Statistics

### Denver Market

Vacancy Rate.....	6.0%
- Change from 1Q 2018 (bps).....	+20
Asking Rents (per month).....	\$1,468
- Change from 1Q 2018.....	+4.5%
Median Sales Price (per unit YTD).....	\$237,500
Average Cap Rate (YTD).....	5.1%

## Denver Multifamily Market Overview (cont.)

Sales of apartment properties slowed from the 2018 pace during the first quarter of this year, and the mix of properties changing hands transformed slightly as well. Approximately 40 percent of the sales transactions that closed during the first quarter involved buildings that

had delivered during the past three years. These newer properties are trading at higher per-unit prices, dragging up the market's median price. While prices rose in part because of the mix of properties sold, cap rates actually ticked higher in the first quarter, averaging 5.1 percent.

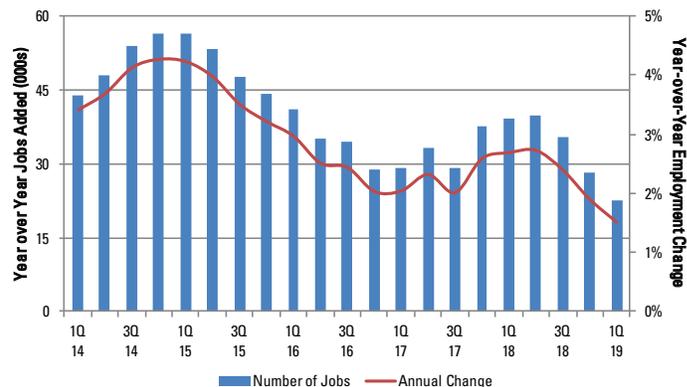
## Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Boulder South	3.0%	3.5%	(50)	\$1,542	\$1,457
Golden	4.3%	4.9%	(60)	\$1,714	\$1,675
Boulder North	4.4%	5.4%	(100)	\$1,869	\$1,799
Denver Southwest	4.6%	5.0%	(44)	\$1,254	\$1,146
Denver Southeast	4.8%	4.8%	-	\$1,248	\$1,203
Denver Northeast	4.9%	4.7%	20	\$1,335	\$1,278
Washington Park	5.1%	5.8%	(70)	\$1,739	\$1,698
Brighton	5.2%	5.6%	(40)	\$1,445	\$1,417
Aurora Southwest	5.3%	4.8%	50	\$1,346	\$1,283
Jefferson County South	5.4%	5.1%	30	\$1,479	\$1,394
Aurora South	5.5%	5.5%	-	\$1,475	\$1,403
Central Business District	5.6%	5.7%	(10)	\$1,854	\$1,835
Denver South Central	5.6%	6.9%	(130)	\$1,508	\$1,426
Arvada	5.7%	5.3%	40	\$1,338	\$1,220
Commerce City	5.7%	4.4%	130	\$1,205	\$1,193
Erie/Firestone/Frederick	6.0%	7.8%	(180)	\$1,426	\$1,378
Interlocken	6.0%	6.0%	-	\$1,543	\$1,469
Denver Tech Center	6.1%	6.4%	(30)	\$1,585	\$1,525
Aurora East	6.3%	5.5%	80	\$1,267	\$1,222
Cherry Creek	6.3%	6.9%	(60)	\$1,579	\$1,553
Westminster	6.3%	5.8%	50	\$1,364	\$1,278
Denver Northwest	6.4%	8.1%	(170)	\$1,731	\$1,596
Lakewood	6.4%	5.5%	90	\$1,400	\$1,363
Capitol Hill	6.6%	6.1%	50	\$1,584	\$1,523
Longmont	6.6%	6.9%	(30)	\$1,401	\$1,333
Aurora Northeast	6.7%	4.4%	234	\$1,140	\$1,084
Castle Rock	6.7%	7.4%	(70)	\$1,436	\$1,393
Thornton/Northglenn	6.7%	5.9%	80	\$1,420	\$1,356
Parker	6.8%	8.2%	(140)	\$1,453	\$1,388
Wheat Ridge	6.9%	4.1%	280	\$1,286	\$1,195
Highlands Ranch/Lone Tree	7.3%	6.2%	110	\$1,600	\$1,541
Lowry Area	7.6%	6.7%	90	\$1,265	\$1,252
Denver International Airport	14.8%	6.5%	830	\$1,516	\$1,470

## Employment

- > Employers in the Denver area continue to expand payrolls. During the past 12 months, more than 22,000 net new jobs have been added, a 1.5 percent increase. The pace of expansion has slowed; one year ago at this time, employers had added 39,000 jobs.
- > While growth in the labor market as a whole has slowed, additions in the professional and business services sector have been accelerating. During the past 12 months, approximately 9,600 professional positions have been added, a 3.6 percent increase. One year ago, the annual growth rate in the sector had totaled 2.8 percent.
- > The Denver area has recorded robust population growth over the past several years, and population-serving sectors are expanding to meet the new demand for services. The education and health services sector grew by 2.9 percent year over year with the addition of 5,400 new workers.
- > **Forecast:** The pace of employment growth is forecast to cool somewhat in 2019. Employers are forecast to add approximately 24,000 net new jobs, representing an expansion of 1.6 percent.

## Employment Overview



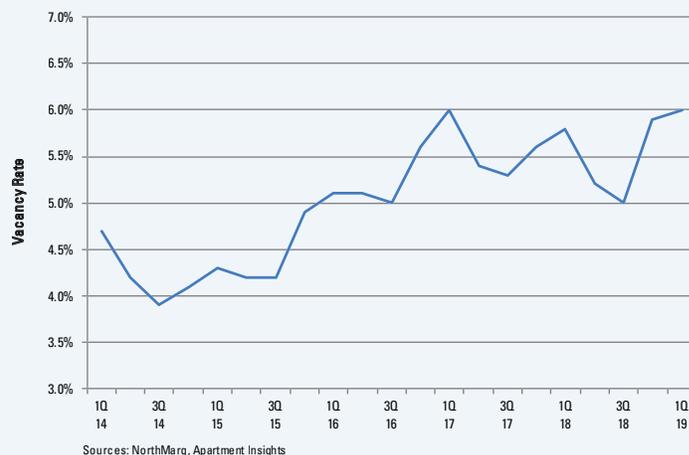
Sources: NorthMarq, Bureau of Labor Statistics

*During the past 12 months, more than 22,000 net new jobs have been added*

## Vacancy

- > Vacancy in Denver inched higher during the first quarter. The rate rose 10 basis points to 6 percent. The rate last reached 6 percent during the first quarter of 2017 before averaging 5.5 percent from the middle of 2017 to the end of 2018.
- > Vacancy has gradually been rising in recent quarters. The rate is up 20 basis points from one year ago, and the current figure is at its highest point since the first quarter of 2017.
- > Vacancy in the Central Business District fell from 6.3 percent to 5.6 percent from the end of 2018 to the first quarter of this year. The submarket's vacancy rate peaked at 8 percent in late 2016 and early 2017 but has generally improved in recent quarters.
- > **Forecast:** Vacancy will likely push higher in 2019, even as fewer new units come online. The rate is forecast to rise 30 basis points this year, ending 2019 at 6.2 percent.

## Vacancy Trends



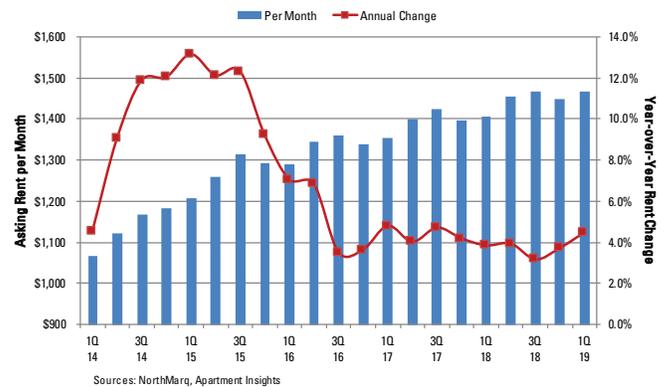
Sources: NorthMarq, Apartment Insights

*The current figure is at its highest point since the first quarter of 2017*

## Rents

- > Asking rents have increased 4.5 percent in the past year, reaching \$1,468 per month during the first quarter. After recording double-digit increases a few years ago, rent growth has averaged 4.5 percent per year since 2016.
- > Asking rents in the Class A segment of the market topped \$2,000 per month in 2017, but growth has leveled off in recent quarters. Asking rents in the top tier ended the first quarter at \$2,191 per month, nearly identical to levels from the preceding quarter.
- > Rent growth in Class B buildings has outpaced the market as a whole, with asking rents rising by 5 percent in the past year to \$1,471 per month. Class B asking rents spiked 1.6 percent during the first quarter.
- > **Forecast:** Rent growth in Denver began to level off a few years ago, and the market is forecast to continue to record fairly steady rent increases in 2019. Asking rents are expected to rise by 4.3 percent this year, reaching \$1,510 per month.

## Rent Trends

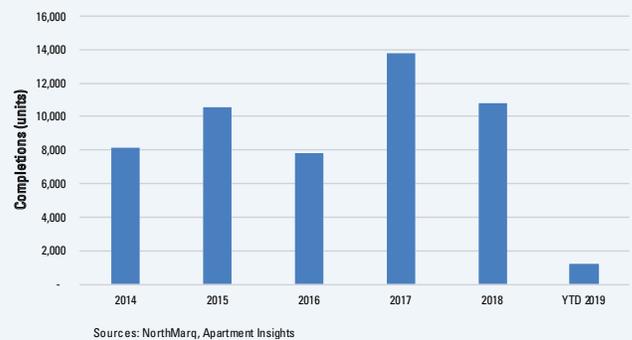


*Rent growth has averaged 4.5 percent per year since 2016*

## Development and Permitting

- > Developers delivered nearly 1,200 apartment units during the first quarter, representing a slowdown in new construction. Deliveries have averaged approximately 2,500 units per quarter during the past five years.
- > There are approximately 12,500 units currently under construction. More than half of these units will come online before the end of 2019.
- > Permitting slowed during the first quarter. Developers pulled permits for approximately 1,900 multifamily units in the first three months of 2019, roughly half of the total from the first quarter of 2018.
- > **Forecast:** After nearly 11,000 apartments came online last year, completions are on pace to slow in 2019. Developers are forecast to bring approximately 9,500 units online this year.

## Development Trends

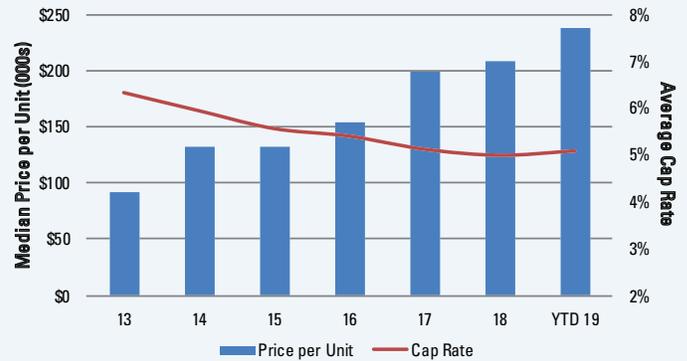


*Permitting slowed during the first quarter*

## Multifamily Sales

- > Sales velocity slowed approximately 40 percent from the fourth quarter of 2018 to the first quarter of this year. Transaction activity lagged levels from one year earlier by about 30 percent.
- > The median sales price from the first quarter was \$237,500 per unit, up 14 percent from the median price in 2018. Prices have pushed higher, in part, as several new construction projects have changed hands. The median price in the newer projects that sold during the first quarter was \$297,300 per unit.
- > Cap rates inched higher during the first quarter, averaging approximately 5.1 percent. This reflects a modest increase of approximately 10-20 basis points from the 2018 average.

## Investment Trends



*Transaction activity lagged levels from one year earlier by about 30 percent*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

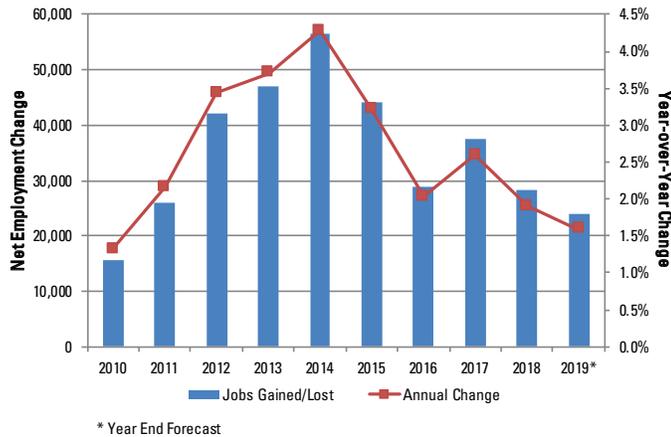
Property Name	Street Address	Units	Sales Price	Price/Unit
Broadstone Montane	17825 Cottonwood Dr., Parker	400	\$120,000,000	\$300,000
Eviva on Cherokee	1250 Cherokee St., Denver	274	\$110,500,000	\$403,285
Ridge at Wheatlands	6855 S Langdale St., Aurora	338	\$91,300,000	\$270,118
Elevate	7338 S Havana St., Centennial	285	\$74,500,000	\$261,403

## Looking Ahead

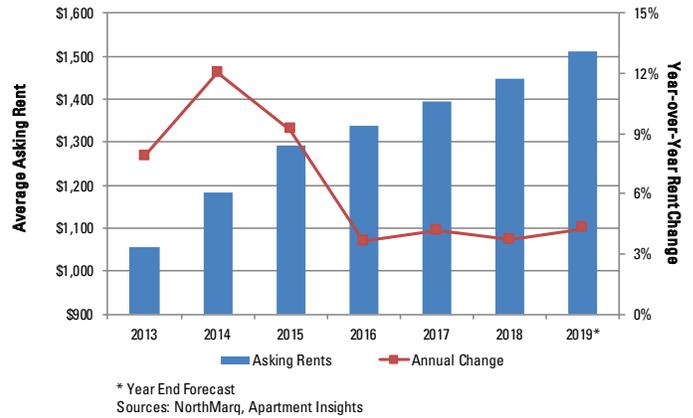
The Denver economy is on track to expand, generating renter demand for apartments in 2019, although the pace of growth this year is expected to lag the robust gains from recent years. Vacancy will likely inch higher for the fourth time in the past five years, but the increase should be modest. Rents are anticipated to rise, but there are some constraints on growth, particularly at the high end of the market. Developers are responding to a moderating pace of demand; multifamily permitting and deliveries are expected to slow in 2019.

Multifamily investment activity in the Denver market peaked in 2016-2017 as investors responded to the rapid absorption of units and rental rate increases that were among the strongest in the country. Sales velocity cooled somewhat last year, and the early indications are 2019 could record another year of activity declines. While investor demand for local multifamily properties will likely level off closer to historical levels, operating conditions remain healthy, and prices and cap rates will likely remain near current ranges, particularly if the recent trend of new, high-end projects continue to trade.

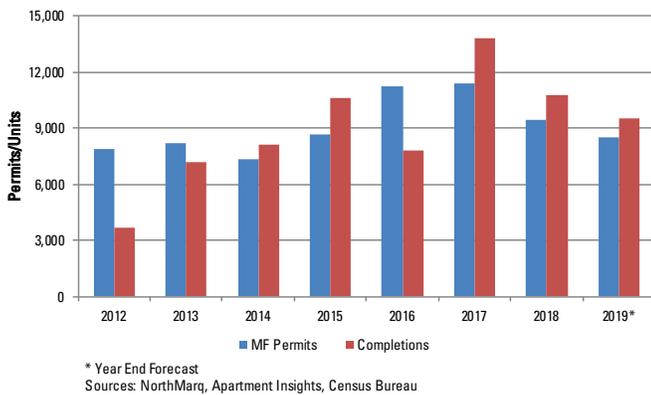
### Employee Forecast



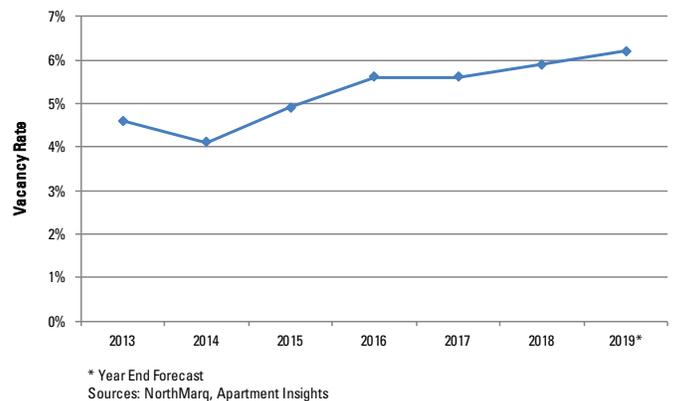
### Rent Forecast



### Construction & Permitting Forecast



### Vacancy Forecast



## 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 \$13 billion, loan servicing portfolio to more than \$57 billion and the multi-year tenure of our more than 550 people.

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