MARKET REPORT | 2Q/2019

Greater Denver Multifamily

NORTHMARQ

Vacancy Improves Even as New Construction Accelerates

Highlights

- The second quarter was a very active period in the Denver multifamily market. Developers delivered thousands of new units, but the vacancy rate dipped and rents rose.
- The vacancy rate fell 80 basis points in the second quarter, dipping to 5.2 percent. The current rate is identical to one year ago.
- Asking rents ended the second quarter at $1,512 per month, up 4 percent from one year ago. Rent gains have been strongest in the Class B segment.
- Sales activity thus far in 2019 has been less active than in recent years. Cap rates have remained flat, averaging approximately 5 percent. Pricing has been uneven, spiking in the first quarter before dipping during the second quarter.

Q2 Snapshot	Denver Market
Market Fundamentals	
Vacancy	**5.2%**
- Year Over Year Change	**0**
Asking Rent	**$1,512**
- Year Over Year Change	**+4.0%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$216,000**
Cap Rates (Avg YTD)	**5.0%**
Construction Activity	
Units Under Construction	**27,559**
Units Delivered YTD	**7,711**

Denver Multifamily Market Overview

Renter demand for apartments in Denver was particularly strong during the second quarter, driving the vacancy rate down to just 5.2 percent. This represents a sharp decline from the first quarter, even as deliveries of new units continued at an aggressive pace. The competitive stresses from new supply, coupled with the slowing pace of employment growth, are creating some uncertainty in the market and causing rent growth to be less robust than in recent years.

The investment market has been fairly steady thus far in 2019. Sales activity is slower than the 2018 pace, but the median price is nearly identical and cap rates are essentially unchanged from one year ago. With sales prices and yields holding fairly steady, activity levels will likely be determined largely by the number of properties available for acquisition. Several newer properties changed hands at the end of 2018 and in the first few months of this year; if similar assets trade in the second half, prices will likely edge higher.

Employment

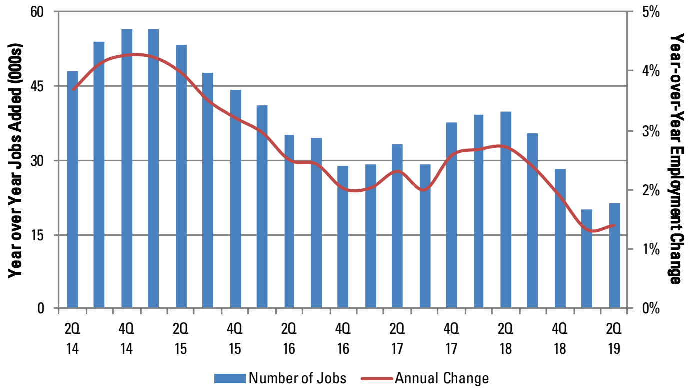
> Employment growth in Denver has slowed in recent quarters. Year over year through the second quarter, employers had expanded payrolls by 1.4 percent, with the addition of 21,200 net new jobs. One year ago, the annual pace of growth was far higher, totaling 2.7 percent.

> The trade, transportation, and utilities sector has been responsible for some of the slowdown in job growth. Annual growth in that sector, which includes retail employment, totaled just 0.6 percent, compared to 2.3 percent one year ago. Retail has been a significant drag, declining by 1.5 percent during the past 12 months.

> The industry that has recorded the greatest acceleration in employment growth is professional and business services, which increased 3.8 percent in the past year with the addition of more than 10,000 new positions. One year ago, the pace of expansion in the sector was less than 3 percent.

> **Forecast:** Employers are forecast to add approximately 25,000 net new jobs in 2019, an expansion of 1.7 percent, following a 1.9 percent increase in 2018.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Retail employment has declined by 1.5 percent during the past 12 months

Vacancy

> After ticking higher to start the year, vacancy retreated during the second quarter. Vacancy improved 80 basis points from the first quarter to 5.2 percent.

> Vacancy has fluctuated in recent quarters but is at the same level as one year ago. The quarterly vacancy rate has ranged between 5 percent and 6 percent for the past three years.

> While the apartment supply in Denver's Central Business District has been expanding by an average of nearly 2,000 units per year, vacancy has been fairly stable. The vacancy rate in the submarket has remained in the low-5-percent to low-6-percent range for the past several quarters.

> **Forecast:** The local vacancy rate has generally ticked higher during the second halves of recent years and another rise is likely. The rate is forecast to end 2019 at 6 percent, 10 basis points higher than the year-end 2018 figure.

Vacancy Trends

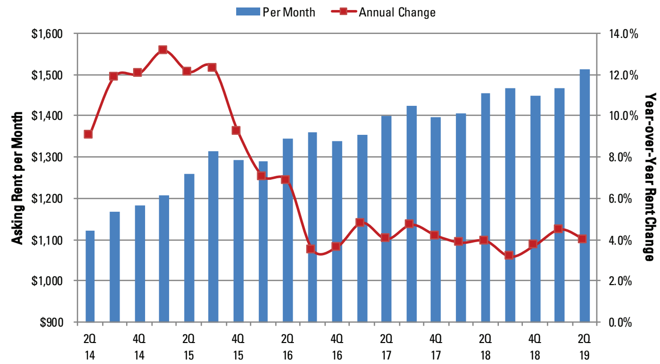
Sources: NorthMarq, Apartment Insights

Vacancy has fluctuated in recent quarters but is at the same level as one year ago

Rents

- Rents are pushing higher in Denver, but gains have leveled off after spikes a few years ago. The average asking rent in the market ended the second quarter at $1,512 per month, up 4 percent from one year ago.
- While the surge in new supply is primarily impacting Class A units, asking rents in Class B buildings have been recording consistent gains. Rents in the Class B segment topped $1,500 per month in the second quarter and have surged by more than 4 percent since the end of 2018.
- The Denver area's growing technology industry is fueling rent growth in the Denver Tech Center submarket. The submarket has some of the highest rents in the region, having increased 4 percent in the past year to more than $1,600 per month.
- **Forecast:** Rents will likely receive a bit of a boost from the impact of newer, high-end units entering the market. Asking rents are forecast to rise 5.5 percent in 2019, reaching $1,527 per month.

Rent Trends



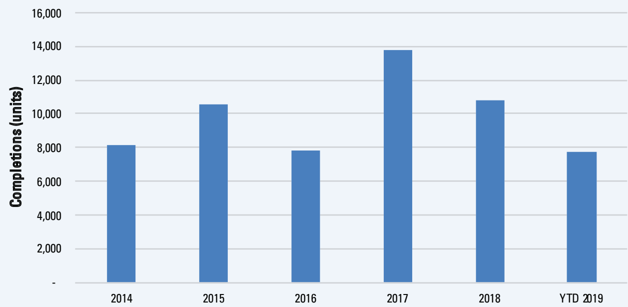
Sources: NorthMarq, Apartment Insights

Rents in the Class B segment topped $1,500 per month in the second quarter

Development and Permitting

- Deliveries picked up during the second quarter, and year to date, developers have completed more than 7,700 apartment units, up approximately 30 percent when compared to the first half of 2018.
- Projects totaling approximately 27,600 units are currently under construction, including more than 5,000 units in the Downtown Denver area.
- Multifamily permitting has been much slower in 2019 than in preceding years. During the first half, developers pulled permits for approximately 3,300 multifamily units, down 35 percent from the first half of 2018.
- **Forecast:** Multifamily construction will be quite active again in 2019, with an estimated 13,000 units forecast to be delivered this year. This will mark the fourth time in a five-year span where developers deliver more than 10,000 units.

Development Trends



Sources: NorthMarq, Apartment Insights

Projects totaling approximately 27,600 units are currently under construction

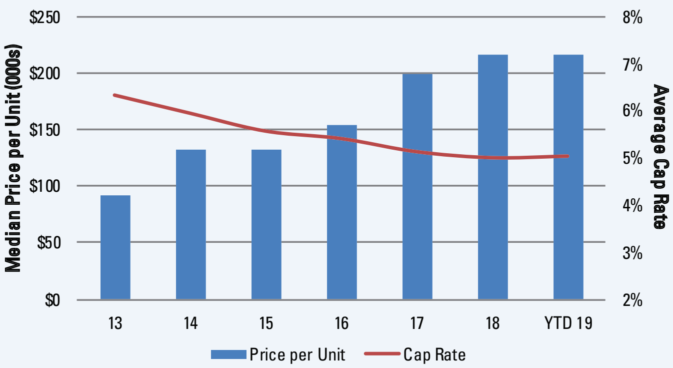
Multifamily Sales

> Sales velocity ticked lower by approximately 5 percent from the first quarter to the second quarter. Through the first half of 2019, transaction activity was down 17 percent from the same period in 2018.

> Following a spike to start the year, prices recorded a dip during the second quarter. The median price in second-quarter sales was $183,600 per unit, down from $237,500 per unit in the first quarter. The median price in sales year to date is $216,000 per unit, nearly identical to the median price for all of 2018.

> Cap rates remained essentially unchanged during the second quarter, averaging approximately 5 percent. With investor demand elevated and a significant supply of new high-end product in the market, cap rates have remained in the low-5-percent range since 2017.

Investment Trends



Sources: NorthMarq, CoStar

Following a spike to start the year, prices recorded a dip during the second quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

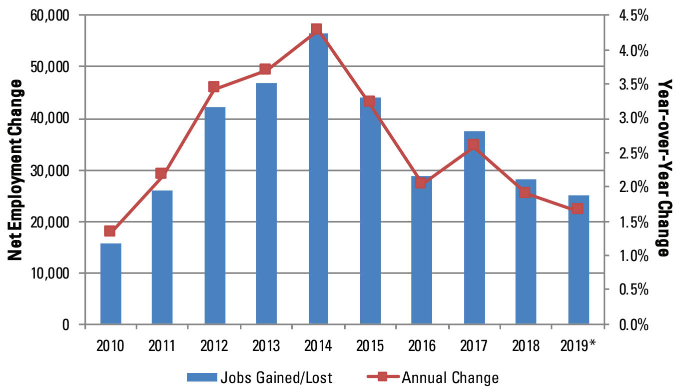
Property Name	Street Address	Units	Sales Price	Price/Unit
Alameda Station	275 S Cherokee St., Denver	338	$109,600,000	$324,260
Griffis Cherry Creek	350 S Jackson St., Denver	240	$72,000,000	$300,000
Cedar Run	888 S Oneida St., Denver	384	$62,000,000	$161,458
Deer Crest	2200 W 10th Ave., Broomfield	287	$61,992,000	$216,000

Looking Ahead

The Denver multifamily market is likely to be in a bit of a supply-demand imbalance during the second half of this year, something that may spill over into 2020 as well. Development of new apartments remains quite active, while the pace of job growth is showing signs of slowing. The market has proven capable of absorbing 7,000 units or more per year, but that was generally during periods of more robust employment and population growth.

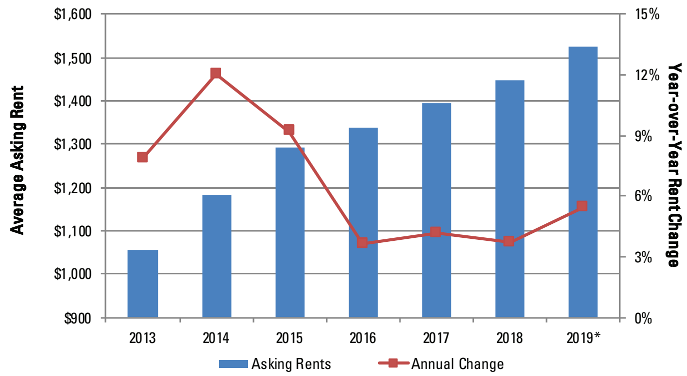
Sales of multifamily properties will likely lag levels from earlier years in 2019. Investment activity peaked in 2017 in both number of transactions and dollar volume. Activity in the second half of this year is expected to closely track levels from the first two quarters of 2019, but there could be a bit of an uptick in sales of smaller properties in response to a dip in interest rates.

Employment Forecast



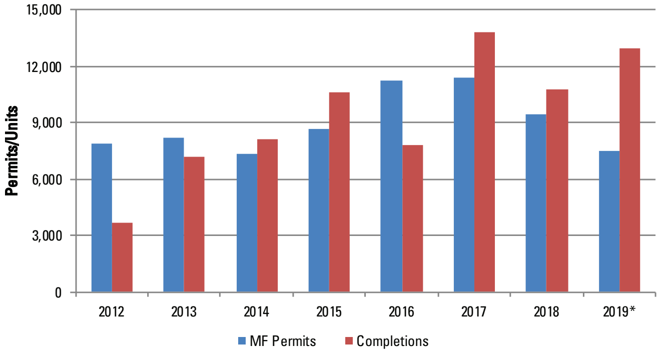
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



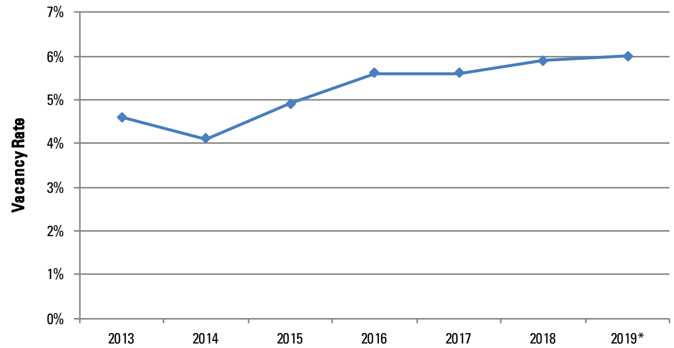
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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

For more information, contact:

David Link
SENIOR VICE PRESIDENT, 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

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