MARKET REPORT | 4Q/2019

NORTHMARQ

Greater Denver Multifamily

Job Growth Accelerates, Keeping Pace with New Apartment Supply

Highlights

- The Denver multifamily market cooled slightly during the fourth quarter, something that has occurred in the final months of the past few years.
- Vacancy rose 70 basis points in the fourth quarter, reaching 5.9 percent. The rate was unchanged from one year earlier.
- Asking rents dipped to $1,512 per month at the end of the year, matching the figure from the second quarter. Rents rose 4.4 percent year over year.
- Sales activity ticked higher to close 2019, and cap rates compressed slightly to 4.9 percent. The median price reached $220,900 per unit for the year, up 2 percent from the 2018 median price.

Q4 Snapshot	Denver Market
Market Fundamentals	
Vacancy	**5.9%**
- *Year Over Year Change*	**0**
Asking Rent	**$1,512**
- *Year Over Year Change*	**+4.4%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$220,900**
Cap Rates (Avg YTD)	**4.9%**
Construction Activity	
Units Under Construction	**23,601**
Units Delivered YTD	**11,701**

Denver Multifamily Market Overview

Conditions in the Denver multifamily market softened to close 2019, with the vacancy rate inching higher and rents creeping lower. Seasonality explains some of the softening, as the spring and summer months are typically the strongest in the local market. New supply growth has been prevalent for the past several years, and the market will continue to be impacted by the deliveries of new units during the next several quarters. Looking a bit further out, the pace of new development could taper off beginning in 2021, which would ease some of the supply-side pressure in the market. Multifamily permitting slowed to its lowest point in nearly a decade in 2019.

While some of the market's property fundamentals leveled off, the investment market built on gains from recent years. Sales activity was strongest in the second half of the year, and a few more properties traded in 2019 than sold during the previous year. Prices also rose, albeit at a slower pace than in recent years, although the year's highest prices were recorded during the fourth quarter, likely setting the stage for additional increases in the year to come. With investor demand elevated, cap rates compressed slightly in 2019, averaging approximately 4.9 percent, after being a few ticks above 5 percent for the past few years.

Employment

- Employment in Denver expanded by approximately 2.2 percent in 2019, with the addition of nearly 34,000 new jobs. This was an acceleration from the 2018 pace when approximately 28,000 jobs were created.
- The financial activities sector posted strong growth in 2019, particularly in the second half of the year. Employers added 5,500 financial jobs in Denver during the year, representing an annual increase of 5 percent.
- Two airlines announced expansions that will support the local economy beginning in 2020. Southwest Airlines chose Denver for a major company expansion that is expected to result in 1,000 new jobs over the next several years. Norwegian Air will begin offering nonstop flights to Rome, a move that is forecast to create 350 jobs.
- **Forecast:** Denver continues to attract new residents and companies moving into the expanding area. In 2020, the local economy is forecast to add approximately 26,000 workers, a 1.7 percent increase.

Employment Overview

Sources: NorthMarq, Bureau of Labor Statistics

Employers added 5,500 financial jobs in Denver in 2019

Vacancy

- After a strong summer and fall, vacancy in Denver rose during the fourth quarter. The rate spiked 70 basis points in the final three months of the year, reaching 5.9 percent.
- The metrowide vacancy rate at the end of 2019 was identical to the rate one year earlier. Vacancy has ranged between 5 percent and 6 percent since the beginning of 2016.
- While the overall vacancy rate has been flat in the past year, the active supply growth has pushed the rate higher in the Class A segment. Class A vacancy ended 2019 at 7.4 percent, up 140 basis points from one year earlier.
- **Forecast:** After holding steady in 2019, vacancy in Denver is forecast to rise 30 basis points in the year ahead. The rate is expected to end the year at 6.2 percent.

Vacancy Trends

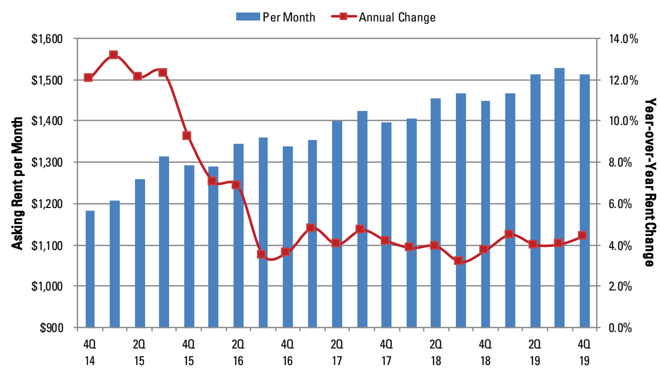
Sources: NorthMarq, Apartment Insights

Vacancy has ranged between 5 percent and 6 percent since the beginning of 2016

Rents

- Rents in Denver dipped during the fourth quarter, retreating to the same figure as was recorded during the second quarter of 2019. Declines in the fourth quarter are common; asking rents in Denver have contracted during the fourth quarter each year since 2015.
- Despite the drop to close the year, current asking rents of $1,512 per month are up 4.4 percent from one year ago. Rent growth has averaged 4 percent per year since 2016.
- While rents in Class A and Class B units continue to trend higher, rental rates for Class C units may be approaching an upward limit. Asking rents in Class C properties rose just 1.5 percent in 2019, ending the year at $1,105 per month.
- **Forecast:** The pace of rent growth is forecast to cool in 2020. Asking rents are expected to rise 3.5 percent in 2020, ending the year at $1,565 per month.

Rent Trends



Sources: NorthMarq, Apartment Insights

Rent growth has averaged 4 percent per year since 2016

Development and Permitting

- Multifamily development has been very active in recent years and that trend continued in 2019. Developers delivered projects totaling approximately 11,700 units in 2019, up 7 percent from the figure in 2018.
- At the end of 2019, there were apartment projects totaling approximately 23,600 units under construction. More than 4,000 units are under construction in the Denver CBD, while an additional 2,400 units are under way in the Denver Northwest submarket.
- After a slower start to 2019, multifamily permitting gained momentum in the fourth quarter. Developers pulled permits for approximately 2,500 multifamily units during the fourth quarter, bringing the total for the year to nearly 7,300 permits. This marked the lowest annual total of multifamily permits issued since 2011.
- **Forecast:** Apartment construction is forecast to total approximately 11,500 units in 2020, closely tracking levels from 2019.

Development Trends

Sources: NorthMarq, Apartment Insights

Developers delivered approximately 11,700 units in 2019

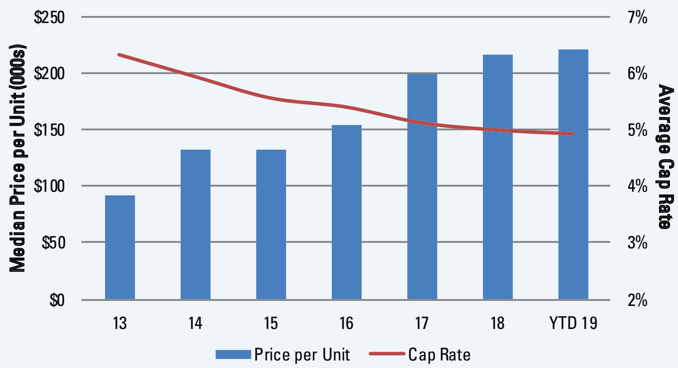
Multifamily Sales

> Sales velocity during the fourth quarter inched higher, rising 4 percent from activity levels in the third quarter. For the year, the number of properties sold rose 6 percent when compared to the 2018 total, and the total dollar volume of transactions was up 9 percent.

> Prices crept higher in 2019, with the median price reaching $220,900 per unit, 2 percent higher than in 2018. Prices reached their highest point in the fourth quarter; the median price during the fourth quarter was nearly $228,000 per unit. Newer assets accounted for approximately one-third of the total transactions during the fourth quarter; the median price in these sales was approximately $320,000 per unit.

> Cap rates averaged approximately 4.9 percent in 2019, 10 basis points lower than in 2018. Cap rates have remained in a fairly tight range during the past three years, averaging approximately 5 percent in that time.

Investment Trends



Sources: NorthMarq, CoStar

The median price reached $220,900 per unit in 2019

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

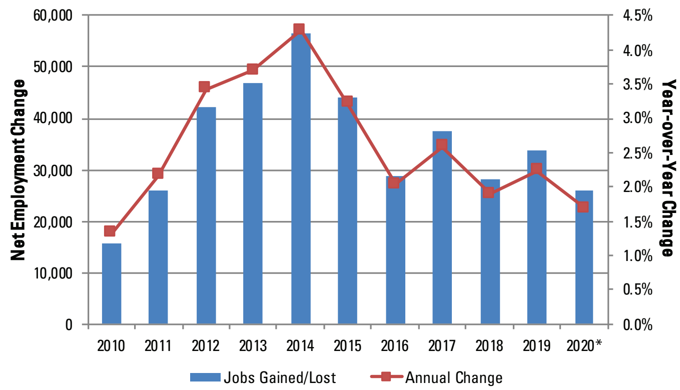
Property Name	Street Address	Units	Sales Price	Price/Unit
Luxe at Mile High	3200 W Colfax Ave., Denver	382	$145,000,000	$379,581
Emery West Highland	3550 W 38th Ave., Denver	322	$114,750,000	$356,366
The Tenzing	11674 N Pecos St., Westminster	320	$96,600,000	$301,875
Glen at Lakewood	453 Van Gordon St., Lakewood	400	$92,000,000	$230,000
Timber Lodge	1769 Coronado Pky N., Thornton	390	$61,000,000	$156,410

Looking Ahead

The active pace of new construction will once again be one of the prevailing themes in the Denver multifamily market in 2020. Developers are forecast to deliver projects totaling more than 11,000 units in 2020; this would mark the fifth time in a six-year stretch where more than 10,000 apartment units were delivered. While renter demand is elevated, the primary fuel for absorption is job growth, and the expectation is that expansion in the local labor market will cool a bit in the year ahead. The forecast result is that new deliveries will outpace renter demand in 2020, causing a modest uptick in vacancy and slowing the pace of rent growth.

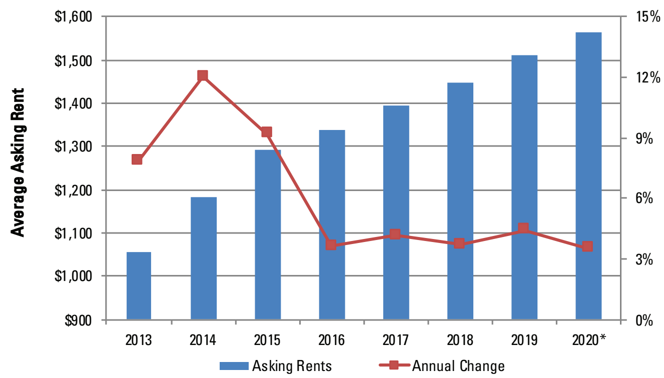
Investment activity was healthy in 2019, and Denver is likely to remain popular with investors. Cap rates have remained in a very tight range in recent years, and while prices have pushed higher in recent years, the double-digit percentage gains from a few years ago have leveled off. Last year, the median per-unit price rose just 2 percent, following an 8 percent rise in 2018. Looking ahead to 2020, cap rates will likely remain near current ranges, and pricing will largely be determined by the quality of the assets changing hands.

Employment Forecast



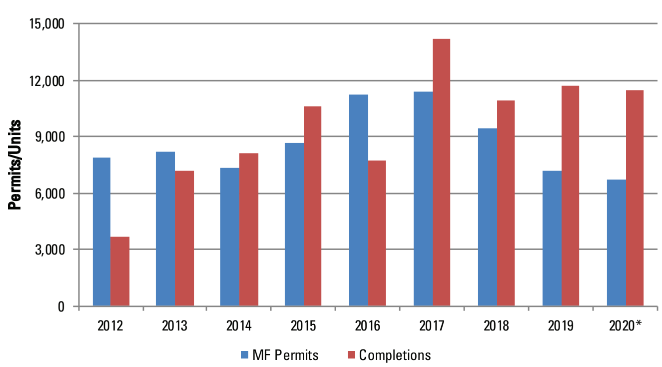
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



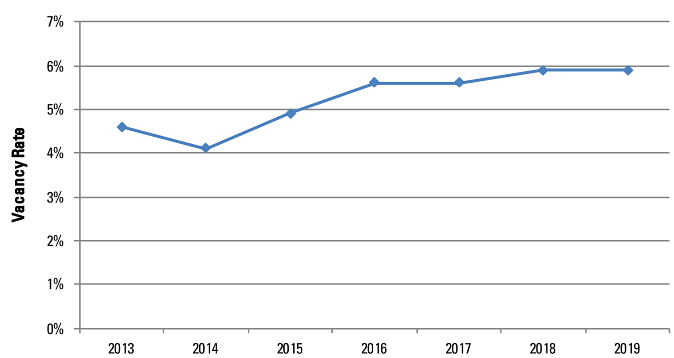
* Year End Forecast
Sources: NorthMarq, Apartment Insights

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.

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